



U.S. ENVIRONMENTAL PROTECTION AGENCY

Fiscal Year
2011



AGENCY FINANCIAL REPORT



ABOUT THIS REPORT

For Fiscal Year 2011, the U.S. Environmental Protection Agency has elected to use the Office of Management and Budget's three-part reporting approach as an alternative to the consolidated Performance and Accountability Report. In FY 2011, the EPA is producing an *Agency Financial Report*, an *Annual Performance Report* and an *FY 2011 Financial and Program Performance Highlights*, pursuant to the OMB Circular A-136, *Financial Reporting Requirements*.

The EPA's AFR provides fiscal and high-level performance results that enable the President, Congress and the public to assess our accomplishments for each fiscal year (i.e., October 1 through September 30). It will also include the EPA's *FY 2011 Financial Statements Audit Report and FY 2011 Management Integrity Act Report*, which provides the Administrator's assurance statement on the soundness of the agency's internal controls for financial and programmatic activities and presents progress in addressing Office of Inspector General audit recommendations.

The EPA's APR provides information on the agency's performance and progress in achieving the goals established in its *FY 2011–2015 Strategic Plan* and FY 2011 performance budget. The report is prepared in accordance with the requirements of OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. The EPA will produce the FY 2011 APR in conjunction with the FY 2013 Congressional Budget Justification and will post it on the agency's website at <http://epa.gov/ocfo/budget/index.htm> by February 6, 2012.

In addition, the EPA will publish an online *Financial and Program Performance Highlights*, which presents key financial and performance information from both the AFR and APR in a brief, nontechnical, user-friendly format. The *Highlights* will be posted on the agency's website at <http://www.epa.gov/planandbudget/>.

How the Report Is Organized

Administrator's Letter

The Administrator's letter transmits the EPA's *FY 2011 AFR* from the agency to the President and Congress. In the letter, the Administrator describes the agency's missions, goals and accomplishments. The letter provides assurance that financial and performance data presented in the AFR is reliable and complete and conveys material internal control weaknesses and actions the EPA is taking to resolve them.

Section I—Management's Discussion and Analysis

This section contains information on the EPA's mission and organizational structure; selected agency performance results; an analysis of the financial statements and stewardship figures; information on systems, legal compliance, and controls; and other management information and initiatives.

Section II—Financial Section

This section contains the Message from the Chief Financial Officer, the agency's financial statements and related Independent Auditor's Report, as well as other information on the agency's financial management.

Section III—Other Accompanying Information

This section provides additional material as specified under OMB Circular A-136, "*Financial Reporting Requirements*." The subsection titled "Management Challenges and Integrity Weaknesses" discusses the EPA's progress in strengthening management practices to achieve program results and presents the Inspector General's list of top management challenges and the agency's response.

Appendices

The appendices include a list of relevant agency Internet links and a glossary of acronyms and abbreviations.

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ADMINISTRATOR'S LETTER

November 15, 2011

The President
The White House
Washington, D.C. 20500



Dear Mr. President:

I am pleased to submit the U.S. Environmental Protection Agency's *Fiscal Year 2011 Agency Financial Report*. This report presents the agency's detailed financial information, accounting for the use of funds entrusted to us to carry out our mission to protect human health and the environment. It also provides readers with a sense of the agency's priorities, strengths and challenges in implementing the programs used to fulfill our mission. The financial and performance data presented in this report are reliable, complete and updated.

This is the first of three integrated reporting components. The remaining two reports, the *Fiscal Year 2011 Financial and Program Performance Highlights* and the *Fiscal Year 2011 Annual Performance Report*, will be available in February 2012.

The EPA at 40

The EPA celebrated its 40th anniversary during 2010. For more than four decades, the EPA has worked to protect human health and the environment. It has matured into the world's preeminent environmental regulatory agency, grounded in the core values of science, transparency and the rule of law. Although there is still much left to accomplish, the EPA has made significant strides in reducing the pollution that threatens our air, our water and our communities. During this fiscal year, we took action under the landmark Clean Air Act to build upon the EPA's efforts to impact climate change. We also put a greater focus on community-level engagement to augment and reinforce the critical work of our state and tribal partners. The EPA is taking common-sense steps to achieve an ambitious vision for protecting and restoring America's waters, ensuring the safety of chemicals, improving air quality, addressing climate change, cleaning up communities and ecosystems and strengthening the EPA's scientific and enforcement capabilities. Further, we are improving the EPA's internal operations to deliver environmental results for the American people.

Management

At the EPA, we take seriously our responsibility as stewards of taxpayer dollars. We continue to make every effort to be more efficient, effective and accountable and to eliminate waste wherever it is found. We are strengthening our internal controls to ensure the EPA achieves its financial and programmatic objectives in the most cost-effective manner.

For FY 2011, both the EPA and the Office of the Inspector General identified no new material weaknesses. We also are addressing a number of less severe weaknesses for which corrective actions are under way. My assurance statement, provided under the Federal Managers' Financial Integrity Act, appears in Section I, "Management's Discussion and Analysis." Section III, "Other Accompanying Information," provides additional information on the EPA's internal-control weaknesses.

The inspector general, in compliance with the Reports Consolidation Act of 2000, has identified what he considers to be the EPA's five most serious management challenges in FY 2011. While we are making progress, the Inspector General has acknowledged that it might take years to meet these challenges,

such as measuring the results of our programs on human health and the environment and ensuring that the nation has the funding needed to construct, repair and maintain its drinking-water and wastewater infrastructure. Meeting these human-health and environmental challenges also will require collaboration among many, including Congress, other federal agencies, states, tribes and communities. The EPA is committed to working with our partners and stakeholders to address these challenges.

Future Direction

The EPA will continue to lead our nation's efforts to protect our air, water and land. We will put our expertise and energy to work to meet our responsibilities for enforcing the nation's environmental laws and regulations, and we will collaborate with our state and local partners to find solutions for our most significant environmental challenges. Our work as One EPA provides a solid foundation for our future success, and I have tremendous confidence in the talent and spirit of our work force. Indeed, the EPA's dedicated men and women look forward to the next 40 years with a renewed commitment to fostering healthier families, cleaner communities and a stronger America.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Lisa P. Jackson', with a stylized, flowing script.

Lisa P. Jackson

Section I

Management's Discussion and Analysis

ABOUT THE EPA

History and Purpose

Born in the wake of elevated concern about environmental pollution, the EPA was established on December 2, 1970, to consolidate in one agency a variety of federal research, monitoring, standard-setting and enforcement activities to ensure environmental protection. Since its inception, the EPA has been instrumental in fostering a cleaner, healthier environment for the American people. Since 1970, America's environmental history has stood witness to both dramatic events and remarkable progress.



The Birth of the EPA

Reorganization Plan No. 3 was an executive order submitted to Congress on July 9, 1970, by President Richard Nixon. The order consolidated components from different federal agencies to form the EPA, "a strong, independent agency" that would establish and enforce federal environmental protection laws. Reorganization Plan No. 3 was sent to Congress in agreement with the provisions of chapter 9 of title 5 of the United States Code. The Reorganization Plan was enacted in Public Law 98-614.

In FY 2011, the EPA celebrated 40 years of working to protect human health and the environment. From regulating vehicle emissions to ensuring that drinking water is safe; from cleaning up toxic waste to assessing and ensuring the safety of chemicals; and from reducing greenhouse gas emissions to encouraging conservation, reuse, and recycling, the EPA and its federal, state, local, and community partners and stakeholders have made enormous progress in protecting and sustaining the nation's health and environment. America's air, water and land are cleaner today than they were only a decade ago, and increasingly people are adopting a "greener" way of living. Across all sectors of society, people are making choices to preserve resources, prevent pollution and reduce impacts on the environment.

The EPA has made exceptional progress in protecting the environment. Despite the historic environmental advances the EPA has made along the way, much work remains. The environmental problems the country faces today are often more complex than those of years past, and implementing solutions—both nationally and globally—is more challenging. These environmental concerns and other obstacles drive the agency's commitment to ensure that communities, individuals, businesses, and state, local and tribal governments all have access to accurate information to assist in managing human health and environmental risks.



The EPA...

- ✓ *Develops and enforces regulations*
- ✓ *Gives grants to states, local communities and tribes*
- ✓ *Studies environmental issues*
- ✓ *Sponsors partnerships*
- ✓ *Teaches people about the environment*
- ✓ *Publishes information*

Mission

The EPA's mission is "to protect human health and the environment." As America's environmental steward, the EPA leads the nation's environmental science, research, education, assessment and enforcement efforts. Maintaining our core values of science, transparency, and the rule of law, the agency is strongly committed to meeting growing environmental protection needs. The EPA's science provides the foundation for agency decision-making and the basis for understanding and preparing to address future environmental needs and issues. Increased transparency is vital for improving programmatic and financial performance. By making environmental information both available and understandable, the EPA advances its work and furthers public trust in its operations.

Organization

The EPA's headquarters are located in Washington, DC. Together, the EPA headquarters, 10 regional offices and more than a dozen laboratories and field offices across the country employ more than 17,000 men and women. The agency's employees are highly educated and technically trained. In fact, more than 50 percent of the agency's employees are engineers, scientists and policy analysts. Many other talented individuals in scores of vital occupations, from legal and public affairs to finance and information technology, make up the agency's workforce.

U.S. Environmental Protection Agency

The mission of the Environmental Protection Agency is to protect human health and the environment



Highlights of Environmental

Region 8 Treating Contaminated Mining Drainage in Colorado

Using \$17 million in hazardous waste cleanup funding from the American Recovery and Reinvestment Act of 2009, the EPA and the Colorado Department of Public Health and Environment constructed a 1,600-gallon-per-minute water treatment plant at the Summitville Mine Superfund site to remove heavy metal contaminants from mine drainage before the water leaves the site and enters the headwaters of the Alamosa River, a tributary of the Rio Grande River. The project has supported job creation in various building trades, including mechanics, heavy equipment operators and truck drivers. In addition, the EPA and the CDPHE installed a micro-hydropower plant at the site, providing 15 to 20 percent of the site's energy needs and resulting in significant cost savings.

<http://www.epa.gov/region8/superfund/co/summitville/index.html>

Region 10 Restoring the Puget Sound Ecosystem

The EPA awarded \$38.1 million in grants to facilitate the ecosystem restoration and protection of Puget Sound, the nation's second-largest estuary. Funded projects include reducing toxic and bacterial pollution and protecting at-risk watersheds such as the Duwamish River, an urban waterway in Puget Sound that is currently under Superfund cleanup. The port of Seattle and city of Seattle have committed \$33 million to clean up contaminated marine sediment and soil. Tribes have used the Puget Sound funding to support the elimination of invasive species and to monitor salmon movement during the Elwha River Dam removal, the largest project of its kind in U.S. history.

<http://www.epa.gov/pugetsound/>

Region 9 Undertaking Uranium Cleanup in Navajo Nation

To address health and environmental impacts of uranium contamination in Navajo Nation, the EPA and Navajo EPA screened 683 structures for potential contamination, completed the demolition and excavation of 34 structures and 12 residential yards, assessed 452 mines, and started cleanup on the 4 highest priority mines. Additionally, the EPA tested 240 wells for ground water contamination and partnered with Indian Health Services and U.S. Housing and Urban Development to invest \$24.5 million in new water lines serving drinking water to 300 homes. Marking a major accomplishment, the EPA and the Navajo Nation reached agreement on a plan to clean up the Northeast Church Rock United Nuclear Corporation mine—the largest mine on the reservation—starting in 2012.

<http://www.epa.gov/region09/NavajoUranium>

Region 7 Responding to Joplin, Missouri, Tornado Aftermath

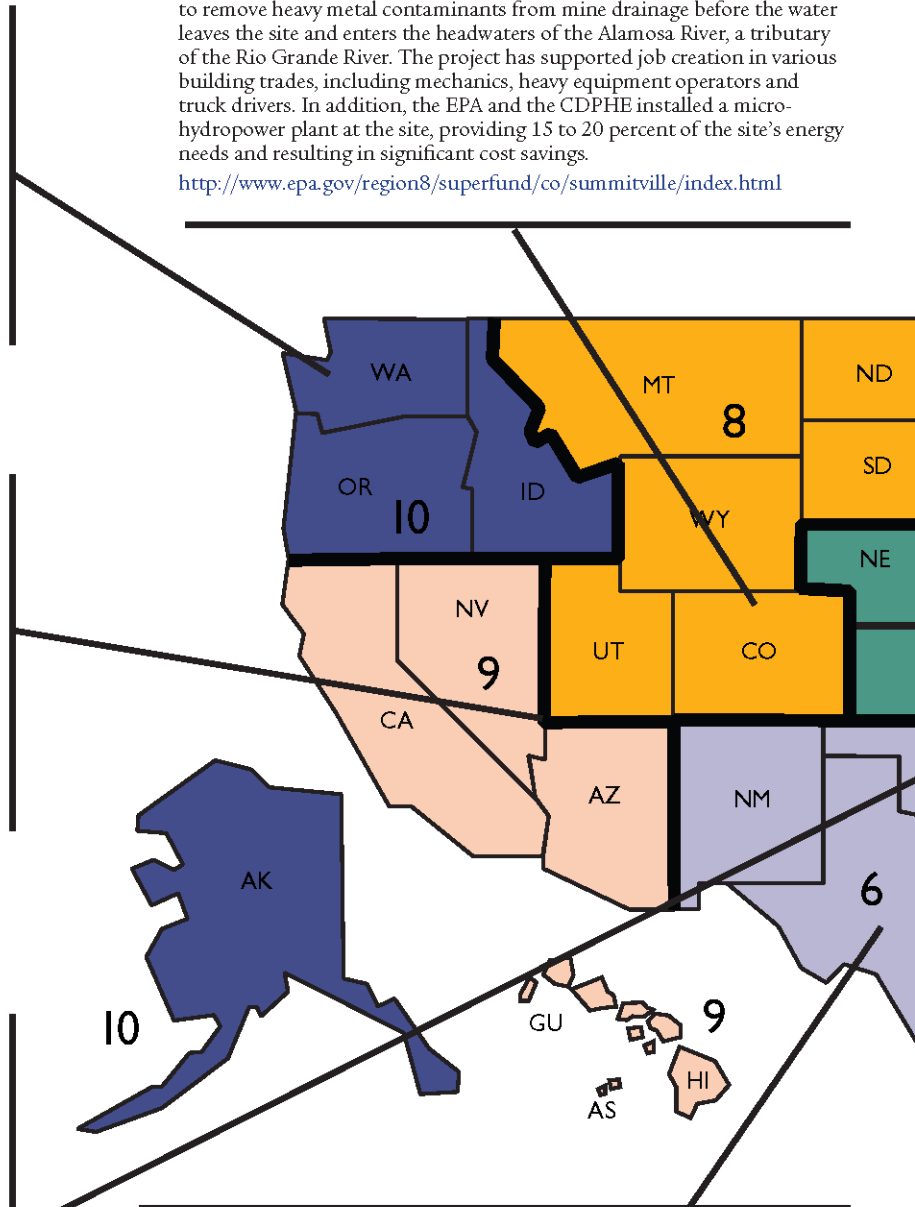
On May 22, 2011, tragedy struck Joplin, Missouri, after an F-5 tornado damaged approximately 8,000 structures in its wake. In the aftermath of the tornado, the EPA has worked with the Missouri Department of Natural Resources and the Federal Emergency Management Agency, as well as other state and local partner agencies and nongovernmental entities, to reuse and recycle more than 156 tons of electronic equipment, 104,000 containers, and 257 tons of white goods, such as housing materials and propane cylinders. In addition, the EPA coordinated with partner agencies to conduct rapid needs assessments, air monitoring for asbestos and particulates, and household hazardous waste operations, as well as provide long-term community recovery support. The EPA has maintained public outreach efforts throughout the response, conducting more than 70 news media interviews that resulted in several hundred news stories mentioning the agency's efforts.

<http://www.epa.gov/joplin/>

Region 6 Ensuring Environmental Justice and Public Health in Texas

The EPA finalized approval of a community-based Supplemental Environmental Project to build a \$1 million health clinic to serve the residents of Port Arthur, Texas. The clinic is part of the EPA's Environmental Justice Showcase Community Project, a grassroots program in which the EPA works with city officials, industry, and state and federal partners to achieve measurable progress in some of America's most environmentally distressed communities. In addition, the EPA has helped establish six multi-stakeholder workgroups designed to improve environmental conditions, health care, housing, jobs training, energy efficiency and urban redevelopment projects in the region.

<http://www.epa.gov/region06/6dra/oejta/ej/index.html>



Accomplishment, EPA Regions

Region 5 Advancing Northeast Ohio's Water Infrastructure and Economy

In July 2011, the EPA reached a Combined Sewer Overflow Consent Decree with the Northeast Ohio Regional Sewer District, mandating a \$3 billion effort to reduce the annual volume of raw sewage discharged from 4.5 billion gallons to 494 million gallons, including a minimum of \$42 million for large-scale green infrastructure projects spanning the next 25 years. Green infrastructure management approaches and technologies include infiltration, evapotranspiration, and the capture and reuse of stormwater to maintain or restore natural hydrologies. Collectively, the implemented control measures will result in the treatment of more than 98 percent of the wet weather flows in the sewer system. One economic impact study concluded that such sewer construction projects will create 31,000 jobs in the 7 northeast Ohio counties, \$3 billion in labor income, and \$443 million in tax revenue.

<http://www.epa.gov/compliance/resources/cases/civil/cwa/neorsd.html>

Region 1 Providing Training To Prevent Lead Exposure in New England

As part of an extensive outreach and assistance effort reaching more than 125,000 people in the New England region, the EPA accredited 64 training providers, over a two-year period, to teach more than 134 courses under the federal lead renovation, repair and painting rule. The rule requires that firms performing renovation, repair and painting projects that disturb lead-based paint in pre-1978 homes, childcare facilities and schools be certified by the EPA and use certified renovators trained to follow lead-safe work practices. To date, 12,664 New England firms have been certified, and almost 2,500 courses have been offered, providing invaluable training to an estimated 75,000 people. Continuing the EPA's effort to achieve compliance and reduce risks, Region 1 issued the first renovation, repair and painting rule enforcement action in the nation resulting from a social media video tip.

<http://epa.gov/region1/enforcement/leadpaint>

Region 2 Cleaning Up the Hudson River

Region 2 marked an important milestone in the cleanup of the Hudson River with the start of the second and final phase of dredging in spring 2011. Over the next five to seven years, General Electric will remove about 2.4 million cubic yards of polychlorinated biphenyls contaminated sediment from a 40-mile section of the Upper Hudson River between Fort Edward and Troy, NY. An estimated 1.3 million pounds of PCBs were discharged into the river from two General Electric capacitor manufacturing plants located in Fort Edward and Hudson Falls over the course of 30 years. General Electric is conducting the dredging project, with EPA oversight, under the terms of a November 2006 legal agreement. Approximately 500 jobs have been created by the cleanup project, and more than 550,000 cubic yards of contaminated sediment has already been removed.

<http://www.epa.gov/hudson/>

Region 3 Reducing Surface Mining Impacts on Appalachian Waters

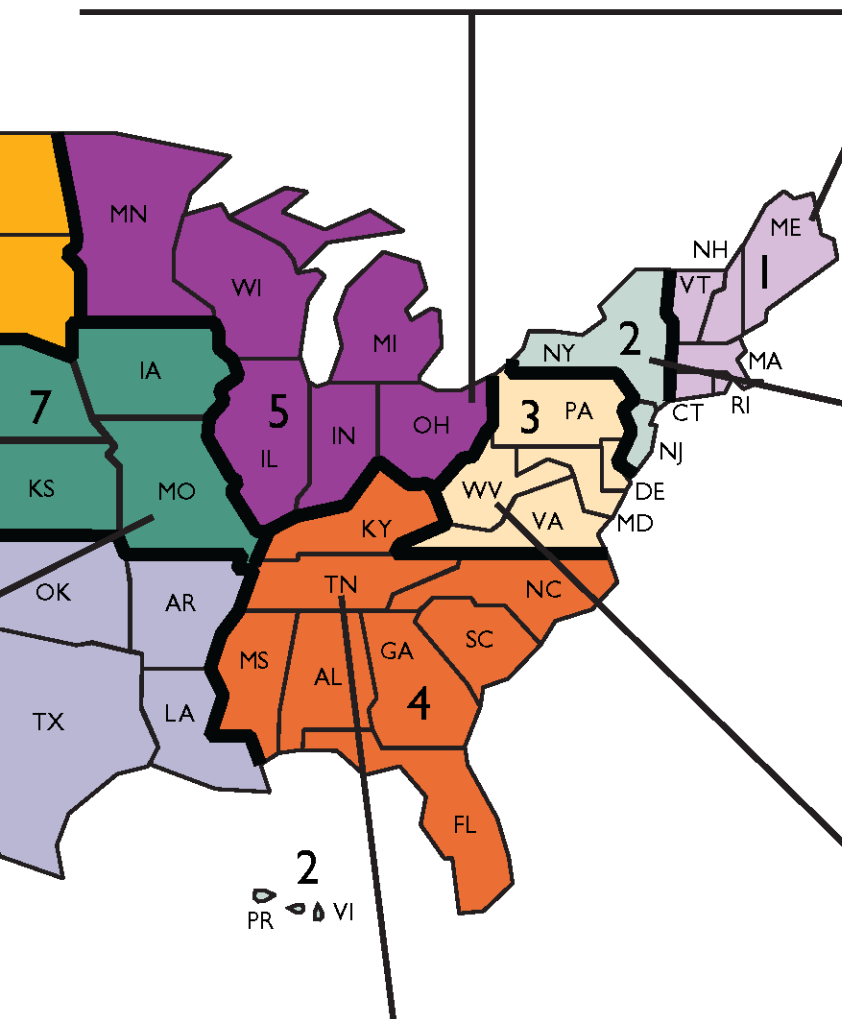
The EPA vetoed a permit issued by the Army Corps of Engineers for the Spruce No. 1 Surface Mine in Logan County, West Virginia, marking the most significant agency action to date in protecting Appalachian waters and reducing the environmental impacts of surface coal mining on local and downstream communities. The EPA held a public hearing to engage stakeholders—including mining companies and workers, local community groups and citizens, and watershed and conservation groups—coming from all sides of the issue. The public hearing solicited more than 50,000 public comments. The EPA's efforts will help prevent harmful levels of selenium and salinity contamination in downstream waters, and avoid the destruction or degradation of 3.5 square miles of wildlife habitat.

<http://yosemite.epa.gov/opa/admpress.nsf/0/6b9ecfabcbe79a5852578170056a179?OpenDocument>

Region 4 Improving Air Quality in the Southeast Through Clean Air Act Settlement

In April 2011, the EPA provided a new benchmark for clean power generation in the United States through a Clean Air Act settlement with the Tennessee Valley Authority that requires the TVA to spend \$350 million on environmental mitigation projects, including energy efficiency and renewable energy projects. Once fully implemented, the pollution controls could reduce emissions of nitrogen oxide by 69 percent and sulfur dioxide by 67 percent from the TVA's 2008 emission levels. The settlement will also significantly reduce particulate matter and carbon dioxide emissions, leading to estimated annual monetized health benefits ranging from \$11 billion to \$27 billion.

<http://www.epa.gov/compliance/resources/cases/civil/caa/tvacoal-fired.html>



Collaboration with Partners and Stakeholders

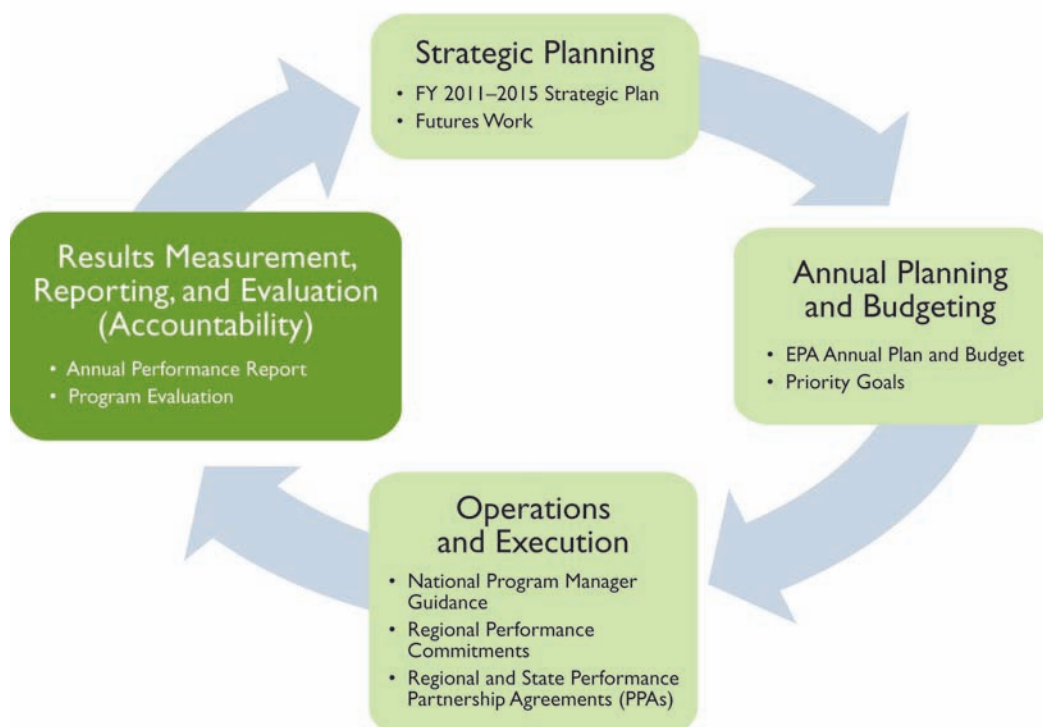
Addressing today's complex environmental issues requires greater transparency and cooperative action; establishing and enhancing working partnerships between all levels of government and with private industry and nonprofit organizations; and leveraging the EPA's resources with those of other federal agencies and state, local and tribal partners. The EPA, the states and the tribes largely share responsibility for implementing environmental laws and policies to protect human health and the environment. The EPA understands that government alone cannot begin to address all of the nation's environmental challenges.

A Framework for Performance Management

To carry out its mission to protect human health and the environment, and in compliance with the Government Performance and Results Modernization Act, the EPA develops a five-year *Strategic Plan* (www.epa.gov/ocfo/plan/plan.htm), which establishes the agency's long-term strategic goals, along with supporting objectives and measures. To support achievement of the long-term goals, objectives and measures, the EPA prepares an *Annual Performance Plan and Budget*, which commits the agency to a suite of annual performance measures. The EPA will report its results against these annual performance measures and discuss progress toward longer term objectives and measures in its *Annual Performance Report*, which the agency presents in its *Congressional Budget Justification*.

The EPA developed its *FY 2011 Annual Plan and Budget* under its *2006–2011 Strategic Plan*. On September 30, 2011, the EPA issued its *FY 2011–2015 Strategic Plan*, which advances the Administrator's Priorities, and in FY 2011, the agency began assessing performance under this new plan.

EPA's Performance Management System



Refocusing Performance Management in FY 2011

To refocus attention on advancing its *FY 2011–2015 Strategic Plan*, in FY 2011 the EPA instituted two new practices that move the agency closer to a goal of using simpler and more meaningful performance information in managing programs and informing decision-making. For example, the Deputy Administrator holds quarterly meetings with senior leadership to discuss progress on agency priority goals, and at midyear and the end of the year on the full suite of performance measures. These meetings encourage transparency and a dialogue among national program managers and regions on program performance.

2011 PROGRAM PERFORMANCE

During FY 2011, the agency made progress in advancing the Administrator's priorities and mission goals. Specifically, the EPA and its partners achieved significant results under each of the five long-term environmental goals established in the agency's *FY 2011–2015 Strategic Plan*: 1) Taking Action on Climate Change and Improving Air Quality, 2) Protecting America's Waters, 3) Cleaning Up Communities and Advancing Sustainable Development, 4) Ensuring the Safety of Chemicals and Preventing Pollution and 5) Enforcing Environmental Laws.

Detailed FY 2011 performance results by strategic goal will be presented in the EPA's *FY 2011 APR*, which the agency will issue with its *FY 2013 Congressional Budget Justification* and post on its website at www.epa.gov/ocfo/budget/index.htm by February 6, 2012. This section highlights the agency's accomplishments in furthering the Administrator's seven priorities.

Taking Action on Climate Change. EPA is contributing to a movement toward more efficient energy use and reduced consumption of fossil fuels, which will reduce greenhouse gas emissions that are linked to climate change. To tackle climate change issues, the agency is taking a proactive approach to reducing greenhouse gas emissions by managing and collecting data on emissions and coordinating with federal, state and local government agencies and the international community.

On August 22, 2011, the EPA opened the electronic Greenhouse Gas Reporting Tool for 2010 GHG reporting. Facilities emitting greenhouse gases reported 2010 emissions to the EPA by September 30, 2011. This comprehensive, nationwide emission data will provide the EPA with a better understanding of the sources of greenhouse gases and will guide development of the policies and programs to reduce emissions. The publicly available data will allow facilities to track their emissions, compare them to similar facilities and identify cost-effective opportunities for reducing emissions in the future. An estimated 85 to 90 percent of total U.S. greenhouse gas emissions from approximately 13,000 facilities will be reported to the registry.

Improving Air Quality. The EPA is making historic progress toward improving air quality through the implementation of the Clean Air Act Amendments of 1990, particularly by developing new standards for vehicle emissions and fuel economy. In FY 2011, the EPA and the U.S Department of Transportation announced that they intend to propose [new fuel-efficiency standards](#) increasing fuel economy to 54.5 miles per gallon for cars and light-duty trucks by model year 2025. The standards that EPA and DOT intend to develop could save approximately 4 billion barrels of oil over the lifetime of the model year 2017–2025 vehicles. In the near term, for model year 2013 cars and trucks, the EPA has unveiled the next generation of [fuel economy labels](#), which provide consumers with more comprehensive fuel-efficiency information at retailers than is currently available. Specifically, the labels will compare energy use and purchase price between new electric cars and conventional gasoline-powered cars.



Administrator Jackson's Priorities

- ❖ *Taking Action on Climate Change*
- ❖ *Improving Air Quality*
- ❖ *Assuring the Safety of Chemicals*
- ❖ *Cleaning Up Our Communities*
- ❖ *Protecting America's Waters*
- ❖ *Expanding the Conversation on Environmentalism and Working for Environmental Justice*
- ❖ *Building Strong State and Tribal Partnerships*

In April 2011, the EPA finalized an important [settlement with the Tennessee Valley Authority](#), which will result in cleaner power generation in the United States. The settlement will ensure that 92 percent of the TVA's coal-fired generating capacity will either be equipped with state-of-the-art air pollution controls for sulfur dioxide and nitrogen oxides or be permanently shut down by the end of 2018. The settlement also requires the TVA to spend \$350 million on environmental mitigation projects, including energy efficiency and renewable energy projects that will result in further pollution reductions.

In July 2011, the EPA finalized the [Cross-State Air Pollution Rule](#), which will lead to capital investments in addition to those underway to comply with the predecessor rulemaking, the Clean Air Interstate Rule. Combined, these investments will help improve air quality for more than 240 million Americans from smog and soot pollution. The EPA estimates \$120 to \$280 billion in annual benefits associated with the rule.

Assuring the Safety of Chemicals. In FY 2011, the EPA continued to ensure that health impacts associated with chemicals are reduced, and that restrictions are placed on harmful chemical substances. To ensure that safe chemicals are used in American commerce, the EPA developed [action plans](#) to address the priority chemicals methylene diphenyl diisocyanate and toluene diisocyanate. Diisocyanates, widely used in sealants, adhesives and coatings, are well-known dermal and inhalation sensitizers in the workplace and have been documented to cause asthma, lung damage and, in severe cases, fatal reactions. To increase transparency, the EPA has removed [confidentiality claims](#) for more than 150 chemicals and is reviewing 100 percent of newly submitted and, where appropriate, is challenging CBI claims for Toxic Substances Control Act health and safety studies.

To make chemical data more accessible, the EPA finalized the 2012 [Chemical Data Reporting Rule](#). Through use of the Chemical Data Access tool, Americans can access key information about chemical use. Additionally, the EPA has registered more than 2,500 products that meet the "Safer Product" label. The Design for the Environment Safer Product Labeling Program uses the EPA's chemical expertise and resources to carefully evaluate products and label only those that have met the program's standards. Use of the logo on products allows consumers to select environmentally friendly chemical products that do not sacrifice quality or performance. The "Safer Product" label can be seen on a variety of chemical-based products, including all-purpose cleaners, laundry detergents, and carpet and floor care products.

In FY 2011, the EPA accelerated the pace of [Pesticide Registration Reviews](#), the program that provides scientifically sound and transparent reviews of all pesticide chemicals on the market. The EPA's Registration Review decisions achieve improved public health and environmental protection by directly contributing to reducing occupational poisoning and the presence of certain pesticides in urban watersheds.

Cleaning Up Our Communities. Cleaning up contaminated sites and making them ready for reuse not only reduces human exposure to contaminants but also stimulates economic development. In FY 2011, cleanup activities funded by the EPA's Brownfields Program, which provides grants and technical assistance to communities, states and tribes for the assessment, cleanup and redevelopment of formerly contaminated properties, leveraged 6,447 jobs. Since 1995, activities have leveraged over 72,000 jobs. In FY 2011, EPA also instituted a new pilot program, called the [Brownfields Area-wide Planning Program](#), under which 23 communities were awarded grants and provided with technical assistance to help develop strategies to address cleanup issues, facilitate community-based partnerships, and advance economic development and job creation through the leveraging of resources and investments.

In FY 2011, EPA continued cleanup efforts at Superfund sites across all EPA regions. Some of the highlights of these efforts included: 1) the excavation and disposal of 173 tons of soil from a Superfund site at the [Flash Cleaners site in Pompano Beach, Florida](#); 2) the reduction of contamination in the [Portneuf River](#) through the interception of more than 2.4 million pounds of phosphorous at the Eastern

Michaud Flats Superfund Site in the Southeast; and 3) the adoption of an interagency Federal Facility Agreement to remediate the [Fort Detrick Area B Groundwater Superfund Site](#), once a testing and disposal area for chemical, biological and radiological materials, located in Frederick, Maryland. Wastes disposed of at the Fort Detrick site released hazardous chemicals into the ground water, contaminating residential drinking water wells. The FFA governs the cleanup and grants the EPA final authority over cleanup decisions.

In response to the Japanese nuclear incident in March 2011, the EPA utilized its nationwide radiation monitoring system, RadNet, to collect and analyze data about radiation contamination in U.S. air, precipitation, drinking water and milk. To enhance transparency and respond to domestic public health concerns, the EPA created the [Japan 2011 website](#), which contained near-real-time monitoring data and Japan-related sample analysis results. This data provided assurances to the American public that any radiation migrating to the United States from Japan was below levels of concern.

Protecting America's Waters. In FY 2011, the EPA provided expertise and funding to support local and state governments and tribes working to improve water quality. Through initiatives like the Urban Waters Program, and Clean and Drinking Water State Revolving Funds, the EPA is addressing the nation's aging water infrastructure, reducing nonpoint source pollution and ensuring that America's waters are clean and safe for recreation and commerce.

Still, communities face many challenges. One such example is the complex environment of the Gulf of Mexico region. Numerous threats to the Gulf impact the protection, restoration, enhancement and management of coastal and natural resources. The EPA continues to play a significant leadership role in the Gulf of Mexico Alliance and supports the collaborative regional watershed projects. Additionally, development of the ["Gulf of Mexico Ecosystem Valuation Database" \(GecoServ\)](#) gives the Gulf of Mexico stakeholders the platform to plan and incorporate the value of ecosystem benefits into their decision-making processes.

In May 2011, the EPA issued Clean Water Act Action Plan Implementation Priorities. Addressing these priorities will increase compliance with and expand transparency of the [National Pollutant Discharge Elimination System](#), contributing to improved water quality. Since the Clean Water Act Action Plan was initiated in 2009, the EPA has worked collaboratively with state co-regulators to develop a wide range of new approaches to compel compliance through public accountability, including self-monitoring, electronic reporting and other methods. As of September 2011, NPDES permitting has prevented the discharge of 203 billion pounds of pollutants into waterways. The EPA and states exceeded their goal of issuing 763 designated priority NPDES permits.

In December 2010, the EPA established the Chesapeake Total Maximum Daily Load, a comprehensive "pollution diet" for meeting water quality standards in the Chesapeake Bay and its tidal tributaries. The [Chesapeake Bay TMDL](#) includes strict limits on nitrogen, phosphorus and sediment and largely reflects detailed strategies submitted by the six watershed states and the District of Columbia for achieving the necessary pollution reductions. The TMDL is designed to ensure that all control measures needed to meet the jurisdictions' Chesapeake Bay water quality standards are in place by 2025, with 60 percent of the actions completed by 2017.

Expanding the Conversation on Environmentalism and Working for Environmental Justice. In FY 2011, the EPA led a number of initiatives designed to promote sustainable development in the United States and abroad and supported the use of technology innovation in solving environmental issues. In August 2011, the EPA Administrator and Brazil's Minister of Environment formally launched the U.S.–Brazil Joint Initiative on Urban Sustainability, a global model for building greener economies and smarter cities. This initiative will demonstrate the economic, environmental and social benefits of increased investment in an urban environment through innovative public–private partnerships for green infrastructure projects.

The EPA also released the updated [Enforcement and Compliance History Online website](#), which includes an interactive, comparative map and dashboard for Clean Water Act major and minor facilities along with an EPA–state enforcement map that allows users to compare enforcement activities across states by federal and state environmental agencies. In FY 2011, ECHO surpassed 10 million queries and is a featured site on www.data.gov. This website was recognized by President Obama as a model for government transparency for regulatory compliance data.

In August 2011, the EPA reached a comprehensive settlement with the Department of the Interior to address alleged violations of waste, water, air, toxics and community right-to-know laws at schools and public water systems in Indian Country that are owned or operated by or the legal responsibility of the Bureau of Indian Affairs. The settlement impacts 60 tribes across the United States and will improve environmental conditions at 164 Department of the Interior schools in Indian Country, benefitting more than 40,000 students. The settlement will protect student and community health in Indian Country by reducing potential exposure to environmental hazards.

During FY 2011, the EPA committed \$1 million to address environmental justice challenges in 10 communities across the nation. Through the [Environmental Justice Showcase Communities](#) initiative, the EPA is working to address and alleviate environmental and human health challenges. This regionally focused effort brings together governmental and nongovernmental organizations to pool their collective resources and expertise on the best ways to achieve real results in communities.

Building Strong State and Tribal Partnerships. The EPA and its partners, the [Department of Housing and Urban Development and the Department of Transportation](#), provided assistance through the [Partnership for Sustainable Communities](#)—a collaborative effort to coordinate and leverage resources among federal, state and local stakeholders. As part of a broader pilot project for transit-area development in the Massachusetts Fairmont-Indigo Corridor, the EPA will help fund the assessment and cleanup of more than 30 local brownfields sites, promoting economic development and community revitalization in the Boston neighborhoods of Roxbury, Dorchester and Mattapan. Additionally, the EPA participates in the [Water Technology Innovation Cluster](#), a geographic concentration of firms that work together to solve water-related problems, promoting economic growth and technological innovation in Ohio, Kentucky and Indiana.

To facilitate coordination with tribal governments and to consider tribal interests when carrying out the EPA's programs to protect human health and the environment, on May 4, 2011, the EPA Administrator announced the [EPA Policy on Consultation and Coordination with Indian Tribes](#). This policy sets standards for the consultation process, defining the what, when and how of consultation; designates specific agency personnel responsible for serving as consultation points of contact in order to promote consistency coordination the consultation process; and establishes a management oversight and reporting structure that will ensure accountability and transparency.

During FY 2011, and after four years of consultation and facilitation support to the Oregon Department of Environmental Quality and the Confederated Tribes of the Umatilla Indian Reservation, the EPA developed recommendations to revise human health criteria for toxics based on an increased fish consumption rate. The Oregon Environmental Quality Commission approved new rules reflecting the recommendations on June 16, 2011.

American Recovery and Reinvestment Act of 2009 Reporting

Since the end of FY 2009, the EPA has tracked program performance for six key ARRA-funded environmental programs that invest in clean water and drinking water projects, implement diesel emission reduction technologies, clean up leaking underground storage tanks, revitalize and reuse brownfields, and clean up Superfund sites. To date, the following have been achieved:

- More than 660 projects have been funded to improve or maintain wastewater treatment works serving an estimated 79 million Americans, and more than 265 drinking water systems have been brought into compliance, serving over 7.4 million Americans.
- Almost 30,000 diesel engines have been retrofitted, replaced or retired.
- Hundreds of contaminated sites have been cleaned up, including 92 brownfield properties, more than 1,300 underground storage tanks and nine Superfund sites. Additionally, more than 50 Superfund site cleanups have been accelerated.

To ensure accountability and demonstrate progress toward meeting ARRA goals, the EPA provides quarterly performance updates at <http://www.epa.gov/recovery/plans.html#quarterly>.

FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

Sound Financial Management: Good for the Environment, Good for the Nation

The EPA carries out its mission to protect human health and the environment with the support of strong financial management. The accomplishments described in this section demonstrate that the EPA adheres to the highest standards for financial management.

- **Audit opinion.** For the 12th consecutive year, the EPA's OIG issued an unqualified or "clean" opinion on the agency's financial statements. This means that the EPA's financial statements are presented fairly in all material aspects and that they conform to generally accepted accounting principles for the federal government. In simple terms, a clean opinion means that that agency's numbers are reliable.
- **Department of Treasury's Collections and Cash Management.** The EPA received an award from the Department of Treasury for the agency's commitment to 100 percent Electronic Funds Transfer collections. The EPA is the first government agency to ever receive such recognition.
- **Compliance with federal financial systems requirements.** The EPA is compliant with the Federal Financial Management Improvement Act, which means that the agency's financial systems comply substantially with federal system requirements and accounting standards. The EPA uses reliable and timely information from its financial system to make sound decisions on the use of agency resources.

The EPA also accomplished significant achievements in FY 2011, a few of which are highlighted below:

- **Financial management system.** In FY 2011, the EPA implemented a component-based approach as its principal financial management systems strategy. This approach begins with the FY 2012 launch of Compass, the core financial system that replaces the Integrated Financial Management System, the EPA's legacy core financial system for the past 22 years. The introduction of Compass will improve the EPA's financial stewardship by strengthening accountability, data integrity and internal controls.
- **Timely payments.** The EPA paid 99.88 percent of its invoices on time and avoided late payment penalties. The improper payment rate was less than 0.12 percent, which means that the correct amount was paid to the right recipient in nearly every instance. Furthermore, the EPA paid 100 percent of its grant payments electronically and 100 percent of them on time.
- **Policy verification.** In FY 2011, the EPA conducted a comprehensive review of internal controls over its ARRA funds, as part of its new Policy Verification Compliance Initiative. The objective of the PVCI is to encourage management integrity and fiscal accountability.
- **Federal relocation services across government.** The EPA's Working Capital Fund continues to grow its relocation service offerings across the federal government. The agency provides services to the U.S. Department of Agriculture, Department of Labor and Transportation Security Administration for home sales, household goods and employee counseling for permanent change of station moves.
- **Indirect rate and annual allocation rates.** During FY 2011, the EPA's continued development and preparation of cost recovery packages resulted in significant gains for the agency. The EPA recovered approximately \$112 million in Superfund indirect costs and collected \$9.7 million in interagency indirect costs.

- **Balanced checkbook.** The EPA's checkbook is balanced—the agency general ledger matches the fund balance records maintained by the Department of the Treasury. This match translates to greater integrity of financial reports and budget results.
- **Improved management of unliquidated obligations.** In FY 2011, the agency implemented a new policy and launched an automated system, which resulted in a review of 100 percent of agencywide ULOs and increased data transparency.

Financial Condition and Results

Financial statements are formal financial records that document the EPA's activities at the transaction level, where a "financial event" occurs. A financial event is any occurrence having financial consequences to the federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, and other potential liabilities; or other reportable financial activities.

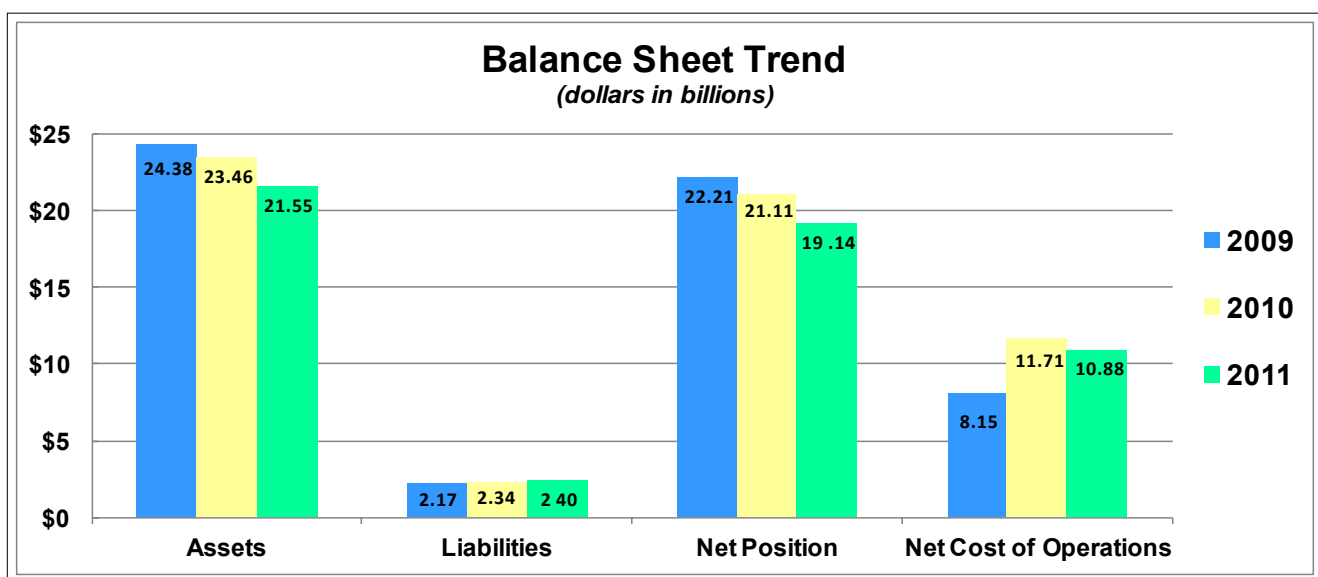
The EPA prepares four consolidated statements, including: 1) Balance Sheet, 2) Statement of Net Cost, 3) Statement of Changes in Net Position, and 4) Statement of Custodial Activity, and one combined statement, the Statement of Budgetary Resources. Together, these statements with their accompanying notes provide the complete picture of the EPA's financial situation. Reviewers can glean a snapshot of the EPA's overall financial condition by examining key pieces of information from these statements. The complete statements with accompanying notes, as well as the auditor's opinion, are available in Section II of this report.



Number Crunching

- **Assets:** What the EPA owns and manages.
- **Liabilities:** Amounts the EPA owes because of past transactions or events.
- **Net Position:** The difference between the EPA's assets and liabilities.
- **Net Cost of Operations:** The difference between the costs incurred by the EPA's programs and the EPA's revenues.

The **Balance Sheet** displays assets, liabilities and net position as of September 30, 2011, and September 30, 2010. The **Statement of Net Cost** shows the EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of the EPA's financial condition—assets, liabilities, net position and net cost of operations. The chart that follows depicts the agency's financial activity levels since FY 2009.

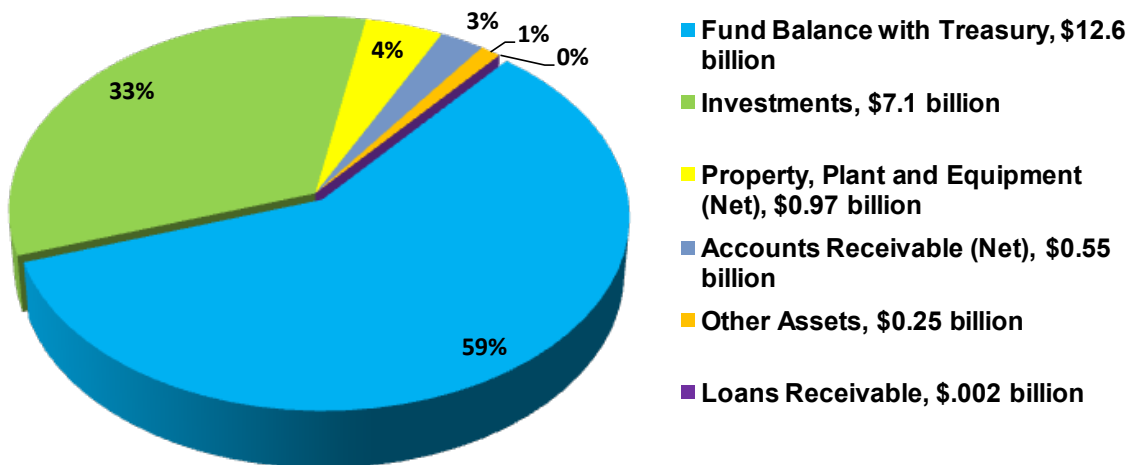


Assets—What the EPA Owns and Manages

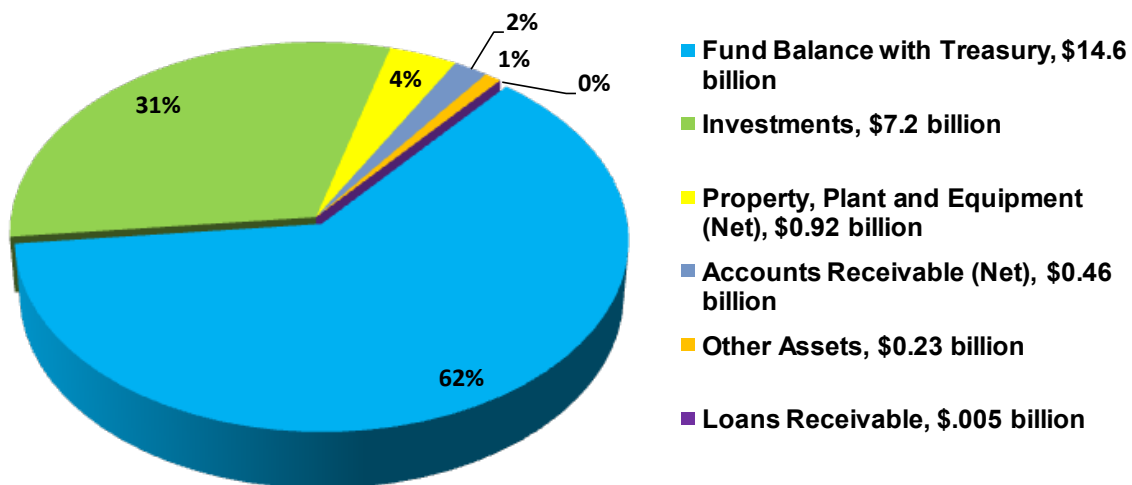
The EPA's assets totaled \$21.55 billion at the end of FY 2011, a decrease of \$1.9 billion from the FY 2010 level. This change is a result of a decrease in the Fund Balance with Treasury primarily related to the cash that was carried forwarded to the FY 2010 Beginning Balance from the ARRA State & Tribal Assistance Grant program. The EPA received the program's budgetary authority in FY 2009, the majority of which was not disbursed fully until FY 2010.

In FY 2011, almost 92 percent of the EPA's assets fall into two categories: 1) its Fund balance with the Department of the Treasury, the equivalent of the agency's "checkbook" balance available to pay expenses, and 2) investments that will be used to pay for future Superfund or Leaking Underground Storage Tank cleanups. All of the EPA's investments are backed by U.S. government securities. The graphs that follow compare the agency's FY 2011 and FY 2010 assets by major categories.

FY 2011 Composition of Assets



FY 2010 Composition of Assets

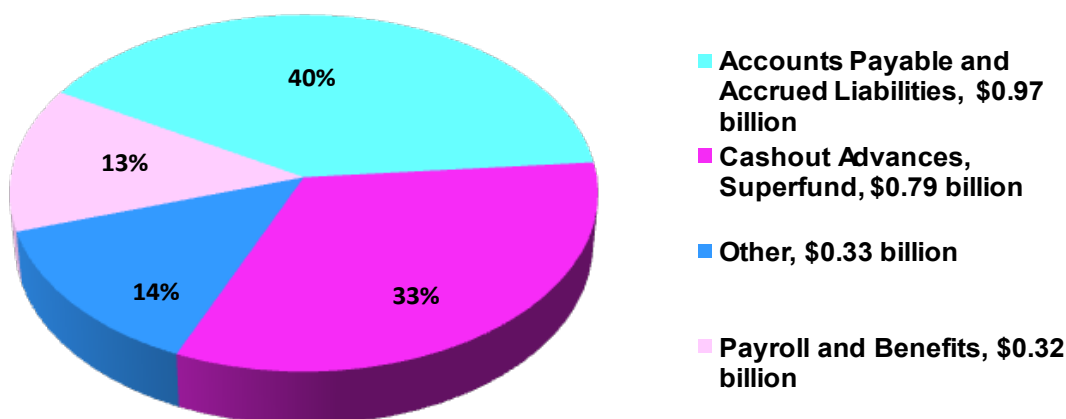


Liabilities—What the EPA Owes

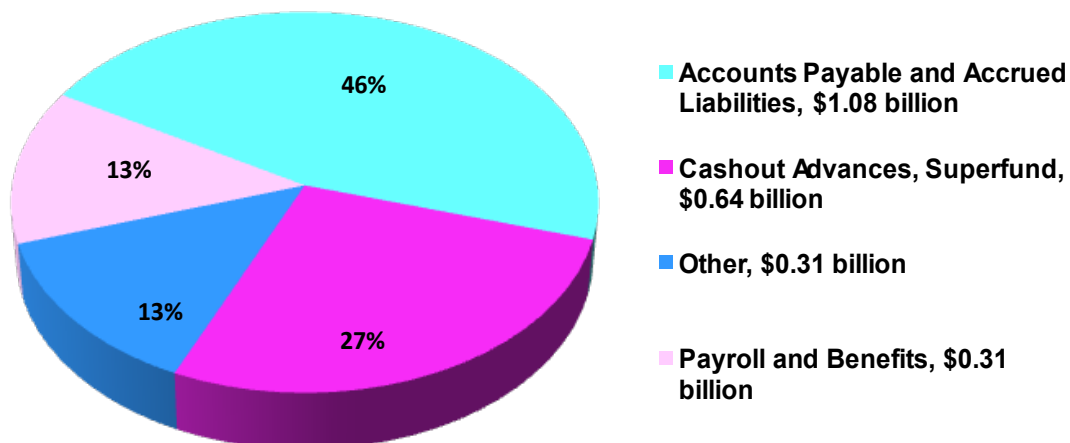
The EPA's liabilities were \$ 2.4 billion at the end of FY 2011, marking an increase of \$60 million from the FY 2010 level. The overall increase in EPA's liabilities is attributed primarily to the increase in Cashout Advances, Superfund in FY 2011 resulting from additional Special Account Settlements primarily from Helca Mining Company, General Motors and Tronox Incorporated.

In FY 2011, the EPA's largest liability, its combined accounts payable and accrued liabilities, includes \$0.97 billion and represents 40 percent of what the agency owes. The next largest category, representing 33 percent of the EPA's liabilities, covers Superfund cashout advances that include funds paid by the EPA to fund cleanup of contaminated sites under the Superfund program. The remaining two categories represent 27 percent of the agency's liabilities. Payroll and benefits payable include salaries, pensions and other actuarial liabilities. Other liabilities include the EPA's debt due to Treasury, custodial liabilities that are necessary to maintain assets for which the EPA serves as custodian, environmental cleanup costs and other miscellaneous liabilities. The graphs that follow compare FY 2011 and FY 2010 liabilities by major categories.

FY 2011 Composition of Liabilities

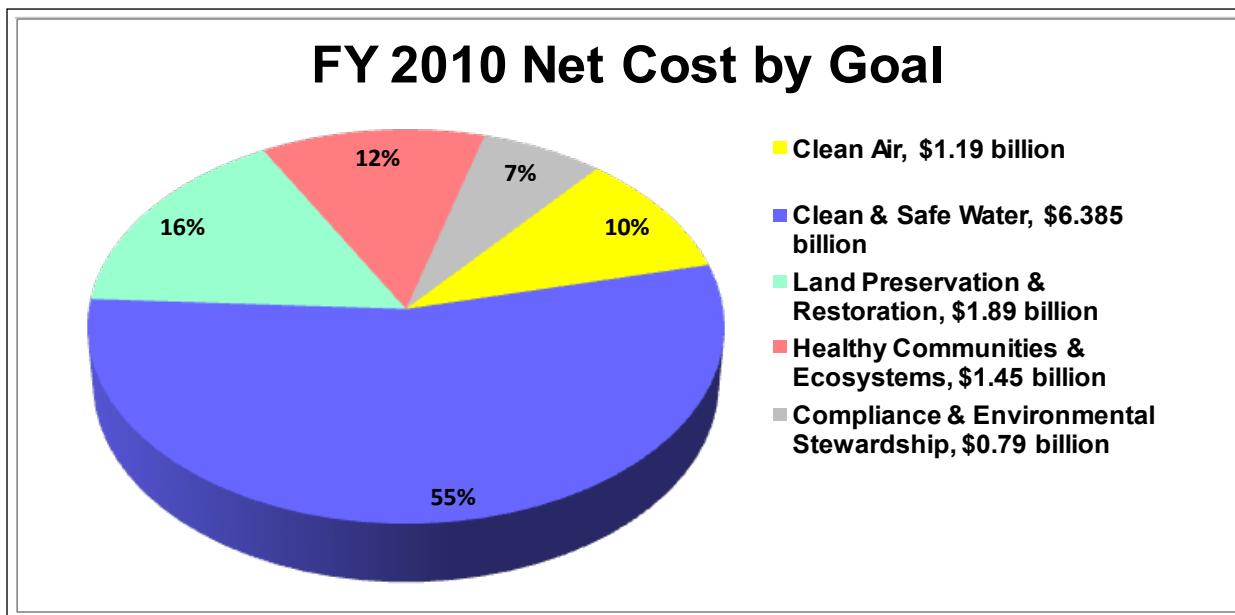
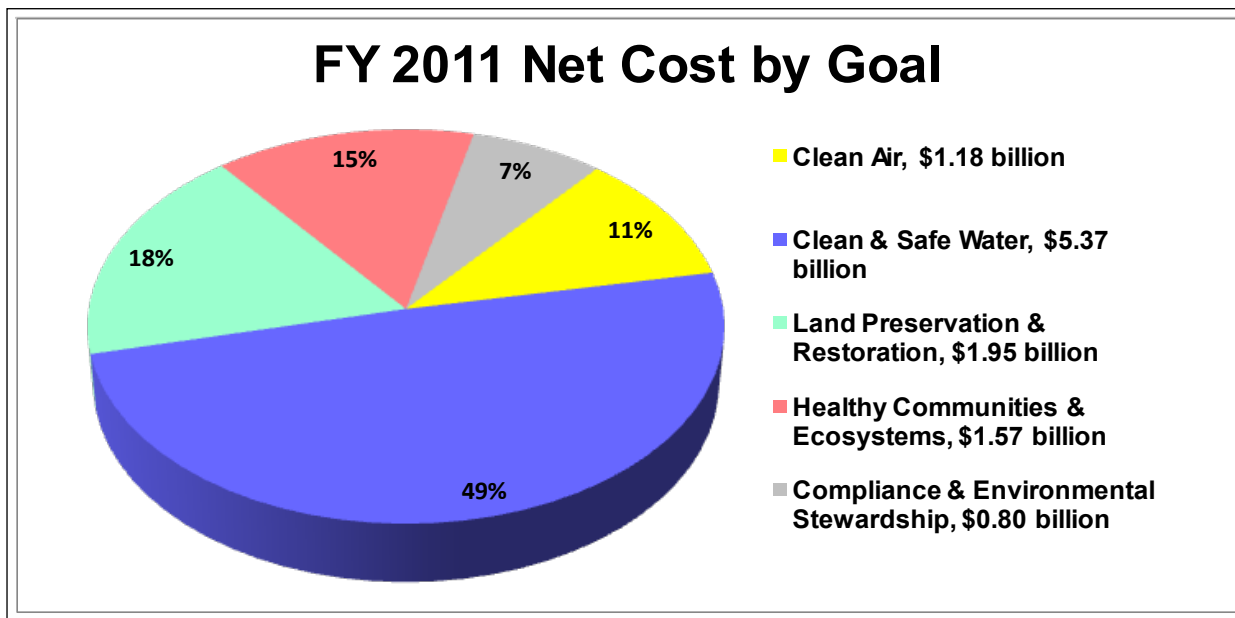


FY 2010 Composition of Liabilities



Net Cost of Operations—How the EPA Used Its Funds

The graphs that follow show how the EPA divided its funds among its five program goal areas in FY 2011 and FY 2010:

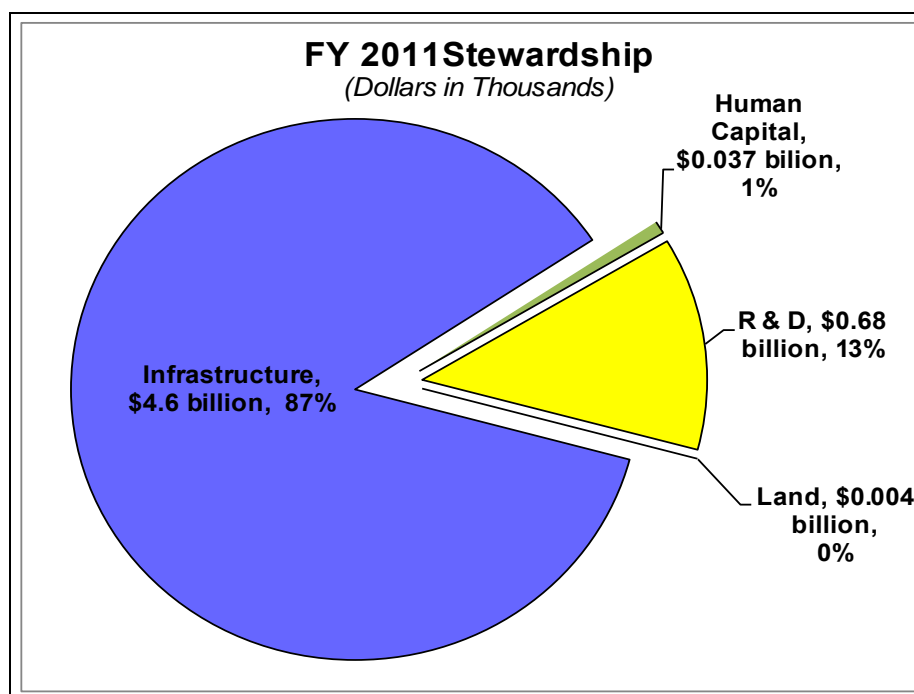


Goal areas: clean air and global climate change, clean and safe water, land preservation and restoration, healthy communities and ecosystems, and compliance and environmental stewardship.

Responsible Financial Stewardship

The EPA serves as a steward on behalf of the American people. The chart below presents two categories of stewardship: RSI (Stewardship Land) and RSSI (Research and Development, Infrastructure, and Human Capital). In FY 2011, the EPA devoted a total of \$5.3 billion to its stewardship activities.

Per Federal Accounting Standards Advisory Board, stewardship investments consist of expenditures made by the agency for the long-term benefit of the nation that do not result in the federal government acquiring tangible assets. As reflected in the graph below, the FY 2011 land totals \$438,000.



- Infrastructure efforts focus on clean water and drinking water facilities. The EPA funds construction of wastewater treatment projects and provides grants to states to support wastewater and drinking water treatment facilities. The EPA devoted nearly \$4.6 billion in FY 2011 to projects to ensure that people have clean, safe drinking water.
- Research and development activities enable the EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for the EPA's regulatory work including those to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.
- Human capital includes the EPA's educational outreach and research fellowships, both of which are designed to enhance the nation's environmental capacity.
- Land includes contaminated sites to which the EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, the EPA acquires easements that are in good and usable condition. These easements also serve to isolate the site and restrict usage while the cleanup is taking place.

A detailed discussion of this information is available in the Required Supplementary Stewardship Information located in Section III of this report.

Financial Management for the Future

As challenges to the environment grow, sound stewardship of the EPA's financial resources becomes increasingly critical to the agency's ability to protect the environment and human health locally, nationally and internationally. Reliable, accurate and timely financial information is essential to inform decisions on how to address land, water, air and ecosystem issues.

To strengthen the EPA's financial stewardship capabilities, the Office of the Chief Financial Officer focuses on the fundamental elements of financial management: people and systems.

People: The EPA leverages every available tool to recruit the best people with the necessary skills to meet tomorrow's financial challenges. Staff are trained in financial analysis and forecasting to understand the financial data, and what the data means. The EPA is integrating financial information into everyday decision-making, so the agency maximizes the use of its resources.

Systems: The EPA's IFMS has served the agency for more than 20 years, but the technologies used by this legacy system are inadequate to meet the EPA's financial management objectives. In FY 2011, the EPA implemented a component-based approach as its principal financial management systems strategy. This approach begins with the launch of Compass in early FY 2012. Compass is the core financial system that replaces the IFMS, the EPA's legacy core financial system for the past 22 years. The introduction of Compass will improve the EPA's financial stewardship by strengthening accountability, data integrity and internal controls. Compass will be based on a commercial-off-the-shelf software solution that addresses the EPA's most critical business needs, including:

- General Ledger
- Accounts Payable
- Accounts Receivable
- Property
- Project Cost
- Intra-Governmental Transactions
- Budget Execution

Compass will provide core budget execution and accounting functions, including posting updates to ledgers and tables as transactions are processed and generating source data for the preparation of financial statements and budgetary reports. Compass will be integrated with 15 agency systems that support such diverse functions as budget planning, execution, and tracking; recovery of Superfund site-specific cleanup costs; property inventory; agency travel; payroll time and attendance; document and payment tracking; and research planning. Compass is a Web-based, open architecture application managed at the CGI Federal Phoenix Data Center, a certified shared service provider in compliance with the Financial Management Line of Business.

Beyond the launch of the new core financial system, the financial systems modernization strategy builds upon Compass through the implementation of five additional components, subject to future review by OMB:

- Human Resources, Payroll, and Time and Attendance
- Implementation of the Common Governmentwide Account Code Structure

- Budget Formulation
- Superfund Imaging and Cost Accounting
- Payment Systems

After the Compass implementation, the EPA plans to migrate its human resources, payroll, and time and attendance systems to an OMB Human Resources Line of Business approved shared service provider.

The implementation of Compass will also serve as the foundation for the introduction of future components to establish a unified and integrated systems infrastructure. Compass will leverage increases in the EPA's wide area network bandwidth as well as its implementation of a trusted Internet connection to facilitate more efficient transaction processing. As additional components are introduced, the infrastructure will evolve to effectively centralize the resource footprint and reduce financial management information silos across the organization.

Limitations of the Principal Financial Statements

The EPA has prepared the principal financial statements to report the financial position and results of operations of the agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the EPA has prepared the statements from the books and records of the entity in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

IMPROVING MANAGEMENT AND RESULTS

Office of Inspector General Audits, Evaluations and Investigations

The EPA's OIG contributes to the agency's mission to improve human health and environmental protection by assessing the efficiency and effectiveness of the EPA's program management and results; ensuring that agency resources are used as intended; developing recommendations for improvements and cost savings; and providing oversight and advisory assistance in helping the EPA carry out its ARRA objectives. In FY 2011, OIG identified key management challenges and internal control weaknesses and provided more than 2,011 recommendations accounting for more than \$82.4 million in potential savings and recoveries and more than 315 actions taken for improvement from OIG recommendations. OIG also contributes to the integrity of and public confidence in the agency's programs and to the security of its resources by preventing and detecting possible fraud, waste and abuse and pursuing judicial and administrative remedies. For example, in response to OIG recommendations the agency: established procedures to provide reasonable assurance that Diesel Emissions Reduction Act grant and subgrant grantee progress reports are accurate and emission levels are verified; agreed to ensure that the Solid Waste Disposal Act site priority requirement is consistently incorporated into the terms and conditions of future LUST Trust Fund grant agreements; developed strategic vision and program design that assures that the ENERGY STAR® label represents superior energy conservation performance along with a complete set of goals, and valid and reliable measures; and agreed to revise policies and procedures to ensure that financial monitoring review reports are distributed timely to all project officers, work assignments managers and task order managers assigned to the contract impacted by the financial monitoring review. OIG investigations accounted for 160 criminal, civil or administrative enforcement actions or allegations disproved during FY 2011 and \$6.4 million in ARRA fund cost savings to date from OIG audits, evaluations and investigations.

Grants Management

The EPA met or exceeded major performance metrics under its second long term Grants Management Plan (2009–2013), including grant closeout and competition goals. The Grants Management Plan builds on the progress made in the Grants Management Plan (2003–2008) and will prevent the recurrence of a grants management weakness.

Grants Management Performance Measures for the EPA			
Performance Measure	Target	Progress in FY 2011	Progress in FY 2010
Percentage of eligible grants closed out	90%	93.4% in 2010	95.6% in 2009
	99%	99.5% in 2009 and earlier	99.6% in 2008 and earlier
Percentage of new grants subject to the competition policy that are competed	90%	96%	96.5%

ACCOUNTABILITY: SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act

FMFIA requires agencies to conduct an annual evaluation of their internal controls over programs (FMFIA Section 2) and financial systems (FMFIA Section 4) and report the results to the President and Congress. In addition, agencies are required to report on the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of *OMB Circular A-123*.

Every year, all of the EPA's national program and regional offices conduct assessments and submit annual assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Administrator's annual statement of assurance on the adequacy of the EPA's internal controls over programmatic operations and financial systems. The Administrator's FY 2011 statement of assurance is provided below. Based on the results of the agency's FY 2011 evaluation, the Administrator can provide reasonable assurance on the adequacy and effectiveness of the EPA's internal controls over programs and financial systems.

To evaluate its internal controls over financial reporting (as required by *OMB Circular A-123*, Appendix A), the agency reviewed 10 key financial processes and 271 key controls. Based on this evaluation, no new material weaknesses were identified. During its financial statement audit process, OIG identified several significant deficiencies. Based on the results of the evaluation and the OIG findings, the agency's internal controls over financial operations were found to be operating effectively and efficiently.



FY 2011 Key Management Challenges Identified by the Office of Inspector General

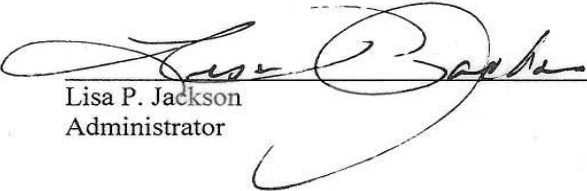
1. *Need for Greater Coordination of Environmental Efforts*
2. *Oversight of Delegation to States*
3. *Safe Reuse of Contaminated Sites*
4. *Limited Capability to Respond to Cyber Security*
5. *EPA's Framework for Assessing and Managing Chemical Risks*

Fiscal Year 2011 Annual Assurance Statement

The U.S. Environmental Protection Agency conducted its FY 2011 assessment of the effectiveness of internal controls over programmatic operations and financial activities, as well as conformance of financial systems to government-wide standards. The assessment was conducted in compliance with the *Federal Managers' Financial Integrity Act*, *OMB Circular A-123*, *Management's Responsibility for Internal Control*, and other applicable laws and regulations.

Based on the results of the EPA's assessment and no findings of material weaknesses, I am providing reasonable assurance that the agency's internal controls over programmatic operations were operating effectively and financial systems conform to government-wide standards as of September 30, 2011.

In addition, based on the results of the EPA's assessment of the effectiveness of internal controls over financial activities and no findings of material weaknesses as of June 30, 2011, I am providing reasonable assurance that the EPA's internal controls over financial activities were operating effectively.

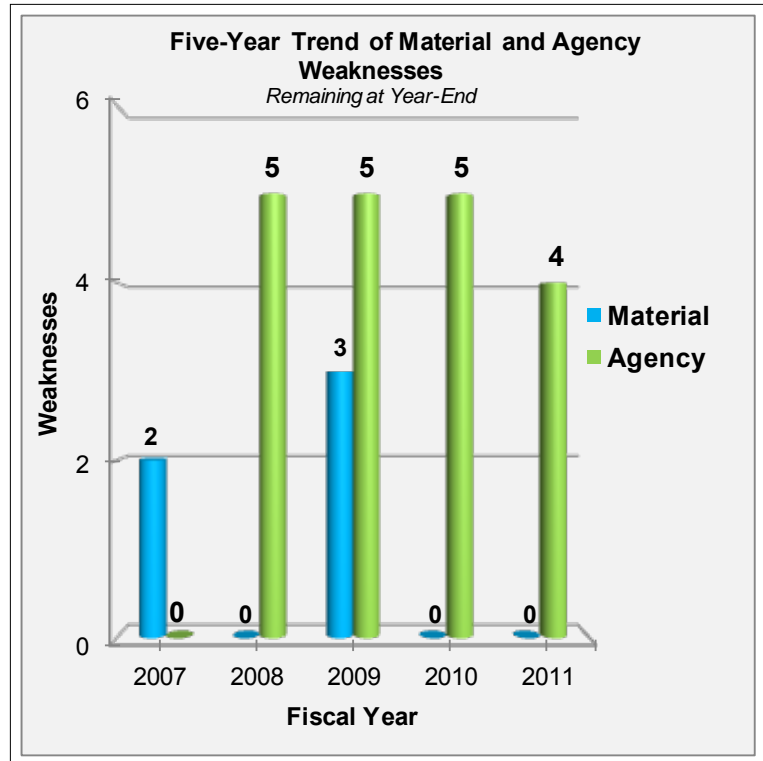

Lisa P. Jackson
Administrator

Nov. 14, 2011
Date

Management Assurances

For FY 2011, no new material weaknesses were identified by the agency or the OIG. The EPA is addressing a number of less severe weaknesses for which corrective actions are underway. In FY 2011, the agency closed one agency-level weaknesses, identified no new agency-level weaknesses, identified five new significant deficiencies and is carrying over four agency-level weaknesses. Section III of this report provides details about corrective actions underway to rectify remaining agency-level weaknesses. The EPA will continue monitoring progress in correcting these issues through their resolution. The accompanying graph depicts the EPA's progress in correcting its material and agency-level weaknesses since 2007.

The EPA continues to emphasize the importance of maintaining effective internal controls. In FY 2011, the agency continued to conduct internal program compliance reviews of program and regional offices to help inform and strengthen its FMFIA implementation. Additionally, the agency provided on-line training for senior managers and designated staff designed to help them fulfill their roles and responsibilities for maintaining an effective internal controls program.



Federal Financial Management Improvement Act

FFMIA requires that agencies implement and maintain financial management systems that comply with 1) federal financial management system requirements, 2) applicable federal accounting standards, and 3) the U.S. Government Standard General Ledger. Annually, agency heads are required to assess and report on whether these systems comply with FFMIA.

EPA's FY 2011 assessment included the following:

- A-123 review found no significant deficiencies.
- The OIG's FY 2011 financial statement audit identified no material weaknesses related to financial management systems.
- The agency's annual Federal Information Security Management Act Report did not disclose any material weaknesses.
- The agency conducted other systems-related activities, including:
 - Initial certification for access to the agency's new accounting system.
 - Completion of security self-assessments with the online Automated System Security Evaluation and Remediation Tracking tool for the accounting system.

Based on the assessment described above, the agency is in compliance with the FFMIA for FY 2011.

Federal Information Security Management Act

FISMA directs federal agencies to annually evaluate the effectiveness of their information security programs and practices and submit a report—including an independent evaluation by the Inspector General—to the Department of Homeland Security, OMB and Congress. Agencies also report quarterly and annually to DHS and OMB on the status of remediation of identified weaknesses.

The EPA's Chief Information Officer and senior agency program officials and the IG's FY 2011 FISMA Report cite no significant or material weakness in information security. However, the IG noted where the EPA needs to make significant improvements in risk management, managing plan of actions and milestones, and continuous monitoring. The report presents the results of the agency's annual security program reviews and reflects the EPA's continued efforts to ensure that information assets are protected and secured in a manner consistent with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information. The agency plans to focus its FY 2012 efforts on improving the effectiveness of the agency information security program by implementing risk-based improvements identified by a series of metrics based on key performance indicators.

Biennial User Fees

In accordance with OMB Circular A-25, *User Charges*, and the Chief Financial Officer's Act of 1990, the agency conducted its biennial review of user fees. The FY 2011 review concluded that the EPA's user fees are in compliance with statutory authority. However, the agency's OIG issued a report recommending that the agency update its 2004 fee rule for the Motor Vehicle and Engine Compliance Program to increase the amount of costs it can recover and conduct biennial reviews of the MVECP fee collections and full program costs. The EPA concurred with OIG's recommendations and is currently evaluating options for making necessary revisions to the fee rule. Also during FY 2011, the agency initiated a feasibility study on the Energy STAR. The EPA continues to evaluate the viability of collecting fees for the program.

Inspector General Act Amendments of 1988 – Audit Management

The EPA uses the results of OIG audits and evaluations to assess its progress toward its strategic goals and make corrections and adjustments to improve program effectiveness and efficiency. The agency is continuing to strengthen its audit management, addressing audit follow-up issues and working to complete corrective actions expeditiously and effectively to improve environmental results. During FY 2011, for example, the Office of the Chief Financial Officer continued the effort it initiated in FY 2009 to conduct quality assurance reviews of national program and regional offices to promote sound audit management and increase agency awareness of, accountability for, and completion of, outstanding unimplemented OIG recommendations. Additionally, the Chief Financial Officer instituted a quarterly report highlighting the status of management decisions and corrective actions. Shared with program office and regional managers throughout the agency, the quarterly reports promote timely audit follow-up and completion of corrective actions. OCFO also initiated an update of the agency Order 2750, "EPA's Audit Management Process."

In FY 2011, the EPA was responsible for addressing OIG recommendations and tracking follow-up activities for 377 OIG reports. The agency achieved final action (completing all corrective actions associated with the audit) on 165 audits, which included program evaluation/program performance, assistance agreement and single audits. This total excludes Defense Contract Audit Agency audits issued after January 1, 2009; these audits are discussed in a separate section below. The EPA's FY 2011 management activities for audits with associated dollars are represented in the following table:

Category	Disallowed Costs (Financial Audits)		Funds Put To Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	65	\$ 66,371,403	77 *	\$ 80,070,565
B. Audits for which management decisions were made during the period (i) Management decisions with disallowed costs (12) and with better use funds (2) (ii) Management decisions with no disallowed costs (79) and with no better use funds (44)	91	\$ 853,496	46	\$ 9,647,000
C. Total audits pending final action during the period (A+B)	156	\$ 67,224,899	123	\$ 89,717,565
D. Final action taken during the period: (i) Recoveries a) Offsets b) Collection c) Value of Property d) Other (ii) Write-Offs (iii) Reinstated Through Grantee Appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed	108	\$ 39,960,302 \$ 1,695,420 \$ 1,027,915 \$ 0 \$ 17,205,909 \$ 54,300 \$ 19,976,758	57	\$ 13,880,370 \$ 13,880,370
E. Audits without final action at end of period (C-D)	48	\$ 27,264,597	66	\$ 75,837,195

*This number includes all performance audits.

The EPA's FY 2011 management activities for audits without final corrective action are summarized below:

- **Final Corrective Action Not Taken.** Of the 377 audits that the EPA tracked, a total of 199 audits—which include program evaluation/program performance, assistance agreement, contracts and single audits—were without final action and not yet fully resolved at the end of FY 2011. (The 13 audits with management decisions under administrative appeal by the grantee are not included in the 199 total; see discussion below.)
- **Final Corrective Action Not Taken Beyond One Year.** Of the 199 audits, the EPA officials had not completed final action on 52 audits (five of which involve multiple offices) within one year after the management decision (the point at which the OIG and the Action Official reach agreement on the corrective action plan). Because the issues to be addressed may be complex, agency managers often require more than one year after management decisions are reached with the OIG to complete the agreed-on corrective actions. These audits are listed below by category—audits of program performance, single audits and assistance agreements—and identified by title and responsible office. Additional details are available on the EPA's website at <http://www.epa.gov/planandbudget/>.

Audits of Program Performance. Final action for program performance audits occurs when all corrective actions have been implemented, which may require more than one year when corrections are complex

and lengthy. Some audits include recommendations requiring action by more than one office. The EPA is tracking 38 audits in this category (four of these involve multiple offices):

Office of Administration and Resources Management

- 9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets
- 10-P00002 Review of Hotline Complaint on Employee Granted Full-Time Work-at-Home Privilege

Office of Air and Radiation

- 2005-P00003 Development of the Proposed MACT for Utility Units
- 2005-P00010 Evaluation of CAA Title V Operating Permit Quality
- 2008-P00206 Voluntary Greenhouse Gas Reduction Programs Have Limited Potential
- 9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets

Office of the Chief Financial Officer

- 2008-P00116 Superfund Expenditures at NPL TRI Sites
- 9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets
- 10-100029 Audit of 2009 and 2008 (Restated) Consolidated Financial Statements
- 10-P00077+ EPA Needs to Improve Its Recording and Reporting of Fines and Penalties

Office of Enforcement & Compliance Assurance

- 2001-P00013 State Enforcement Effectiveness – National Audit
- 2005-P00024 Priority Enforcement and Compliance Assurance Universe
- 2007-P00027 Benchmarking Other Organizations Statistically Valid Compliance Practices
- 2008-P00141 EPA Needs to Track Compliance with Superfund Clean-up Requirements
- 9-P00092 EPA Can Improve Implementation of the Risk Management Program for Airborne Chemical Releases
- 9-P00144 EPA Needs to Improve Internal Controls to Increase Cost Recovery
- 10-P00007 EPA Oversight and Policy for High Priority Violations of Clean Air Act Need Improvement
- 10-P00009+ EPA Needs a Better Strategy to Identify Violations of Section 404 of the Clean Water Act
- 10-P00077+ EPA Needs to Improve Its Recording and Reporting of Fines and Penalties
- 10-P00133 EPA Should Improve Its Oversight of Federal Agency Superfund Reviews
- 10-P00066 EPA Needs a Coordinated Plan to Oversee Its Toxic Substances Control Act Responsibilities

Office of Environmental Information

- 2007-P00008 EPA Could Improve Controls over Mainframe Software
- 2009-P00127 EPA Has Improved its Response to FOIA Requests

Office of Research and Development

- 9-P00232 EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity
- 2009-P00235 EPA Needs an Oversight Program for Protocol Gases
- 10-P00042+ Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks

Office of Solid Waste and Emergency Response

- 2006-P00013 SF Mandate: Program Efficiencies
- 2006-P00007 More Information Is Needed on Toxaphene Degradation Products
- 2007-200003 Superfund Cooperative Agreement Obligations
- 2007-P00002 Asbestos Cleanup in Libby Montana
- 8-P00265 EPA Should Continue Efforts to Reduce Unliquidated Obligations in Brownfields Pilot Grants
- 10-P00042+ Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks
- 10-P00133 EPA Should Improve Its Oversight of Federal Agency Superfund Reviews

Office of Water

- 2002-P00012 Controlling and Abating Combined Sewer Overflows
- 9-P00223 EPA Needs to Accelerate Adoption of Numeric Nutrient Water Quality Standards
- 10-P00009+ EPA Needs a Better Strategy to Identify Violations of Section 404 of the Clean Water Act

10-P00081 EPA Needs Procedures to Address Delayed Earmark Projects
 10-R00057 EPA Needs Definitive Guidelines for Recovery Act and Future Green Reserve Projects

Region 1

2009-P00119 Improved Management of Special Accounts Will Make More Funds Available

Region 2

2007-P00039 OIG Congressional Request-Ringwood Mines/Landfill Superfund
 2007-P00016 Ringwood Mines/Landfill Superfund Site

Region 3

2007-P00031 Chesapeake Bay Land Use
 10-P00055 Changes in Conditions at Wildcat Landfill Superfund Site in Delaware Call for Increased EPA Oversight

Region 9:

2008-P00196 Making Better Use of Stringfellow SF Special Accounts

+ Indicates audits involving more than one office

Single audits. Final action for single audits occurs when nonmonetary compliance actions are completed. Achieving final action may require more than a year if the findings are complex or the grantee does not have the resources to take corrective action. Single audits are conducted of nonprofit organizations, universities, and state and local governments. The EPA is tracking completion of corrective action on 11 single audits for the period beginning October 1, 2011.

Region 2

2007-300139 State of New York, FY 2006

Region 9:

9-300234 Guam Waterworks Authority FY 2008
 10-300164 Guan Waterworks Authority FY 2009

Region 10

2002-300009 Iliama Village Council
 2002-300042 Iliama Village Council
 2003-300047 Stevens Village Council
 2003-300117 Stevens Village Council
 2003-300145 Circle Village Council
 2004-300011 Northway Village Council
 2006-300167 State of Alaska - FY 2003
 2006-300168 State of Alaska - FY 2004

Audits of Assistance Agreements. Reaching final action for assistance agreement audits may require more than one year, as the grantee may appeal, refuse to repay, or be placed on a repayment plan that spans several years. The EPA is tracking three audits in this category:

Region 2

1989-901299 Nassau County, NY

Region 3

2001-100101 Center for Chesapeake Communities (CCC) Assist. Agreements

Region 5

2008-200039 Village of Laurelville, Ohio

Audits Awaiting Decision on Appeal. The EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, the EPA must not take action to collect the account receivable until the agency issues a decision on the appeal. At the end of FY 2011, 13 audits were in administrative appeal. When these audits are out of appeal and all issues have been resolved, they will be captured in audit follow-up data reported in the EPA's AFR.

Defense Contract Audit Agency Audits

Prior to January 1, 2009, DCAA audits of the EPA contracts were requested by the EPA's Office of Inspector General and the results included in the OIG's Semi-annual Report to Congress. The EPA will continue to track and report on these DCAA audits along with other Office of Inspector General audits until they are resolved and final action taken; they are included in the summary above. Beginning January 1, 2009, however, the EPA's Office of Acquisition Management assumed responsibility for requesting DCAA audits. Accordingly, these audits are now reported separately from Office of Inspector General audits. Following is an overview of DCAA audit activity for the period, October 1, 2010 through September 30, 2011.

Summary of Audit Activities for the Period Ending September 30, 2011

During this reporting period, agency management was accountable for monitoring 65 DCAA audits. The agency achieved final action on 36 audits. The EPA's FY 2011 management activities for DCAA audits with associated dollars are represented in the following table:

Category	Disallowed Costs (Financial Audits)		Funds Put To Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	1	\$ 97,198	0	\$ 0
B. Audits for which management decisions were made during the period	35	\$ 2,538,189	0	\$ 0
(i) Management decisions with disallowed costs (6)				
(ii) Management decisions with no disallowed costs (25)				
C. Total audits pending final action during the period (A+B)	36	\$ 2,635,387	0	\$ 0
D. Final action taken during the period:	36	\$ 2,635,387	0	\$ 0
(i) Recoveries				
a) Offsets		\$ 0		
b) Collection		\$ 97,198		
c) Value of Property		\$ 0		
d) Other		\$ 2,538,189		
(ii) Write-Offs		\$ 0		
(iii) Reinstated Through Grantee Appeal		\$ 0		
(iv) Value of recommendations completed				\$ 0
(v) Value of recommendations management decided should/could not be completed		\$ 0		\$ 0
E. Audits without final action at end of period (C-D)	0	\$ 0	0	\$ 0

Final Corrective Action Not Taken on DCAA Audit Reports: Of the 65 DCAA audits the EPA tracked, a total of 29 audits were without final action and not yet fully resolved at the end of FY 2011.

DCAA Audits Awaiting Decision on Appeal: As of September 30, 2011, there were no management decisions in administrative appeal status.

DCAA Audits Without Management Decision in 180 Days: As of September 30, 2011, the EPA is tracking no DCAA reports for which EPA is the cognizant agency, and that have not reached management decision in over 180 days from the date of the report.

Section II

Financial Section



Message from the Chief Financial Officer

The EPA's Agency Financial Report presents the performance and financial results achieved by the agency during Fiscal Year 2011. It provides information on the EPA's accomplishments and challenges in protecting human health and the environment, use of the financial resources entrusted to us and progress in addressing key management challenges.

During Fiscal Year 2011, the EPA continued to demonstrate efficient, effective and accountable administration and to make innovative improvements to eliminate waste and reduce costs. Highlights of the agency's efforts include becoming the first government agency to receive Treasury's Award for 100% Electronic Funds Transfer for Collections and Cash Management, an exceptionally low improper payment rate of 0.01% and a 12th consecutive clean opinion on its audited financial statements.

As required by OMB Circular A-123 and the Federal Managers' Financial Integrity Act, we conducted an annual assessment of the effectiveness of internal controls over financial reporting and programmatic operations. To strengthen our financial and programmatic stewardship, the agency implemented a multi-year review strategy to ensure the integrity of agency programs and resources are protected from fraud, waste, abuse and misappropriation. Based on the results of the agency's Fiscal Year 2011 evaluation and reviews, the Administrator can provide reasonable assurance on the adequacy and effectiveness of the EPA's internal controls over programs, financial activities and financial systems.

To ensure the agency is effectively managing its resources, the EPA implemented its new unliquidated obligations policy and deployed an agencywide desktop tool to proactively monitor obligation balances for all grants, interagency agreements, small purchases, travel documents and contracts. The new tool replaces a paper-based process with real-time access to data, creating greater transparency and accountability over federal funds. As a result, the agency reduced unliquidated obligations by \$7.4 billion.

During Fiscal Year 2011, the EPA continued its effort to replace its legacy financial system with a new core financial system, Compass. The new system will increase efficiency, improve business performance and ensure financial integrity. Throughout the year, the Compass team conducted functionality, user acceptance, performance, integration and end-to-end testing to comprehensively identify and resolve system defects prior to launch. These testing activities established the foundation for a successful launch of Compass in early Fiscal Year 2012.

In Fiscal Year 2011, the EPA began a new Policy Verification Compliance Initiative to assess the overall efficiency, effectiveness and consistency of financial activities. The initiative allows the agency to identify best practices and potential improvements to strengthen financial management. The agency targeted the Recovery Act Stewardship Plan as its first verification review effort. The results ensure that Recovery Act funds were managed appropriately.

As Chief Financial Officer, I take seriously my responsibility to provide informed financial analysis to agency leaders and the public. As we start the new fiscal year, we will uphold our commitment to financial excellence, move money out faster for projects and ensure taxpayers' dollars are utilized effectively in fulfilling our mission to protect human health and the environment. We achieved great things this fiscal year and I look forward to continuing our success through collaboration with our partners and stakeholders and implementing innovative, cross-cutting strategies to help meet the challenges ahead.

Barbara J. Bennett
Chief Financial Officer
November 15, 2011

Principal Financial Statements

Financial Statements

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2. Consolidated Statement of Net Cost
3. Consolidated Statement of Net Cost by Goal
4. Consolidating Statement of Changes in Net Position
5. Combined Statement of Budgetary Resources
6. Statement of Custodial Activity

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2. Stewardship Land
3. Supplemental Combined Statement of Budgetary Resources

Required Supplementary Stewardship Information (Unaudited)**Supplemental Information and Other Reporting Requirements (Unaudited)**

Superfund Financial Statements and Related Notes

**Environmental Protection Agency
Consolidated Balance Sheet
As of September 30, 2011 and 2010
(Dollars in Thousands)**

	<u>FY 2011</u>	<u>FY 2010</u>
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 12,662,541	\$ 14,603,024
Investments (Note 4)	7,112,197	7,243,613
Accounts Receivable, Net (Note 5)	35,518	45,698
Other (Note 6)	251,803	223,296
Total Intragovernmental	\$ 20,062,059	\$ 22,115,631
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	514,190	417,535
Loans Receivable, Net - Non-Federal (Note 7)	2,107	5,254
Property, Plant & Equipment, Net (Note 9)	966,799	915,121
Other (Note 6)	2,566	2,834
Total Assets	\$ 21,547,731	\$ 23,456,385
Stewardship PP& E (Note 11)		
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities (Note 8)	52,448	51,325
Debt Due to Treasury (Note 10)	2,593	4,844
Custodial Liability (Note 12)	56,703	52,751
Other (Note 13)	132,910	132,286
Total Intragovernmental	\$ 244,654	\$ 241,206
Accounts Payable & Accrued Liabilities (Note 8)	\$ 916,766	\$ 1,031,448
Pensions & Other Actuarial Liabilities (Note 15)	44,833	44,938
Environmental Cleanup Costs (Note 22)	20,838	20,154
Cashout Advances, Superfund (Note 16)	790,069	636,673
Commitments & Contingencies (Note 18)	10,180	4,373
Payroll & Benefits Payable (Note 33)	272,335	264,975
Other (Note 13)	103,989	99,996
Total Liabilities	\$ 2,403,664	\$ 2,343,763
NET POSITION		
Unexpended Appropriations - Other Funds (Note 17)	11,462,598	13,342,784
Cumulative Results of Operations - Earmarked Funds (Note 19)	7,027,163	7,152,382
Cumulative Results of Operations - Other Funds	654,306	617,456
Total Net Position	19,144,067	21,112,622
Total Liabilities and Net Position	\$ 21,547,731	\$ 23,456,385

The accompanying notes are an integral part of these financial statements.

**Environmental Protection Agency
Consolidated Statement of Net Cost
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)**

	<u>FY 2011</u>	<u>FY 2010</u>
COSTS		
Gross Costs (Note 20)	\$ 11,577,224	\$ 12,406,265
Less:		
Earned Revenue (Note 20)	<u>698,331</u>	<u>693,484</u>
NET COST OF OPERATIONS (Note 20)	\$ <u>10,878,893</u>	\$ <u>11,712,781</u>

The accompanying notes are an integral part of these financial statements.

**Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Period Ending September 30, 2011
(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean & Safe Water</u>	<u>Land Preservation & Restoration</u>	<u>Healthy Communities & Ecosystems</u>	<u>Compliance & Environmental Stewardship</u>
Costs:					
Intragovernmental	\$ 159,456	\$ 252,748	\$ 390,431	\$ 335,757	\$ 192,243
With the Public	1,035,680	5,125,894	2,180,996	1,289,505	614,514
Total Costs (Note 20)	<u>1,195,136</u>	<u>5,378,642</u>	<u>2,571,427</u>	<u>1,625,262</u>	<u>806,757</u>
Less:					
Earned Revenue, Federal	13,586	7,333	124,874	12,010	3,607
Earned Revenue, non Federal	1,034	1,458	494,249	38,725	1,455
Total Earned Revenue (Note 20)	<u>14,620</u>	<u>8,791</u>	<u>619,123</u>	<u>50,735</u>	<u>5,062</u>
NET COST OF OPERATIONS (Note 20)	<u>\$ 1,180,516</u>	<u>\$ 5,369,851</u>	<u>\$ 1,952,304</u>	<u>\$ 1,574,527</u>	<u>\$ 801,695</u>

	<u>Consolidated Totals</u>
Costs:	
Intragovernmental	\$ 1,330,635
With the Public	\$ 10,246,589
Total Costs (Note 20)	<u>11,577,224</u>
Less:	
Earned Revenue, Federal	\$ 161,410
Earned Revenue, non Federal	\$ 536,921
Total Earned Revenue (Note 20)	<u>698,331</u>
NET COST OF OPERATIONS (Note 20)	<u>\$ 10,878,893</u>

The accompanying notes are an integral part of these financial statements.

**Environmental Protection Agency
Consolidated Statement of Net Cost by Goal
For the Period Ending September 30, 2010
(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean & Safe Water</u>	<u>Land Preservation & Restoration</u>	<u>Healthy Communities & Ecosystems</u>	<u>Compliance & Environmental Stewardship</u>
Costs:					
Intragovernmental	\$ 170,677	\$ 193,456	\$ 342,734	\$ 293,850	\$ 182,299
With the Public	<u>1,048,124</u>	<u>6,197,330</u>	<u>2,096,211</u>	<u>1,265,653</u>	<u>615,931</u>
Total Costs (Note 20)	<u>1,218,801</u>	<u>6,390,786</u>	<u>2,438,945</u>	<u>1,559,503</u>	<u>798,230</u>
Less:					
Earned Revenue, Federal	18,923	2,803	103,687	64,034	3,400
Earned Revenue, non Federal	<u>5,906</u>	<u>2,524</u>	<u>446,569</u>	<u>44,144</u>	<u>1,494</u>
Total Earned Revenue (Note 20)	<u>24,829</u>	<u>5,327</u>	<u>550,256</u>	<u>108,178</u>	<u>4,894</u>
NET COST OF OPERATIONS (Note 20)	<u>\$ 1,193,972</u>	<u>\$ 6,385,459</u>	<u>\$ 1,888,689</u>	<u>\$ 1,451,325</u>	<u>\$ 793,336</u>

	<u>Consolidated Totals</u>
Costs:	
Intragovernmental	\$ 1,183,016
With the Public	<u>\$ 11,223,249</u>
Total Costs (Note 20)	<u>12,406,265</u>
Less:	
Earned Revenue, Federal	\$ 192,847
Earned Revenue, non Federal	<u>\$ 500,637</u>
Total Earned Revenue (Note 20)	<u>693,484</u>
NET COST OF OPERATIONS (Note 20)	<u>\$ 11,712,781</u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Period Ending September 30, 2011
(Dollars in Thousands)

		FY 2011 Earmarked Funds	FY 2011 All Other Funds	FY 2011 Consolidated Total
Cumulative Results of Operations:				
Net Position - Beginning of Period		7,152,382	617,456	7,769,838
Beginning Balances, as Adjusted	\$	7,152,382	\$ 617,456	\$ 7,769,838
Budgetary Financing Sources:				
Appropriations Used		-	10,287,988	10,287,988
Nonexchange Revenue - Securities Investment (Note 35)		120,429	-	120,429
Nonexchange Revenue - Other (Note 35)		184,984	0	184,984
Transfers In/Out (Note 31)		(17,068)	35,410	18,342
Trust Fund Appropriations		1,156,073	(1,156,073)	-
Total Budgetary Financing Sources	\$	1,444,418	\$ 9,167,325	\$ 10,611,743
Other Financing Sources (Non-Exchange)				
Donations and Forfeitures of Property		-	50	50
Transfers In/Out (Note 31)		1	76	77
Imputed Financing Sources (Note 32)		29,661	148,993	178,654
Total Other Financing Sources	\$	29,662	\$ 149,119	\$ 178,781
Net Cost of Operations		(1,599,299)	(9,279,594)	(10,878,893)
Net Change		(125,219)	36,850	(88,369)
Cumulative Results of Operations	\$	<u>7,027,163</u>	<u>\$ 654,306</u>	<u>\$ 7,681,469</u>
		FY 2011 Earmarked Funds	FY 2011 All Other Funds	FY 2011 Consolidated Total
Unexpended Appropriations:				
Net Position - Beginning of Period		-	13,342,784	13,342,784
Beginning Balances, as Adjusted		-	13,342,784	13,342,784
Budgetary Financing Sources:				
Appropriations Received		-	8,583,238	8,583,238
Appropriations Transferred In/Out (Note 31)		-	1,750	1,750
Other Adjustments (Note 34)		-	(177,186)	(177,186)
Appropriations Used		-	(10,287,988)	(10,287,988)
Total Budgetary Financing Sources		-	(1,880,186)	(1,880,186)
Total Unexpended Appropriations		-	11,462,598	11,462,598
TOTAL NET POSITION	\$	<u>7,027,163</u>	<u>\$ 12,116,904</u>	<u>\$ 19,144,067</u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Consolidating Statement of Changes in Net Position
For the Periods Ending September 30, 2010
(Dollars in Thousands)

		FY 2010 Earmarked Funds	FY 2010 All Other Funds	FY 2010 Consolidated Total
Cumulative Results of Operations:				
Net Position - Beginning of Period		<u>7,086,476</u>	<u>582,668</u>	<u>7,669,144</u>
Beginning Balances, as Adjusted	\$	\$ 7,086,476	\$ 582,668	\$ 7,669,144
Budgetary Financing Sources:				
Appropriations Used		-	11,294,823	11,294,823
Nonexchange Revenue - Securities Investment (Note 35)		130,504	-	130,504
Nonexchange Revenue - Other (Note 35)		213,984	-	213,984
Transfers In/Out (Note 31)		(20,789)	33,859	13,070
Trust Fund Appropriations		<u>1,280,570</u>	<u>(1,280,570)</u>	<u>-</u>
Total Budgetary Financing Sources	\$	\$ 1,604,269	\$ 10,048,112	\$ 11,652,381
Other Financing Sources (Non-Exchange)				
Transfers In/Out (Note 31)		-	(546)	(546)
Imputed Financing Sources (Note 32)		<u>27,022</u>	<u>134,618</u>	<u>161,640</u>
Total Other Financing Sources	\$	\$ 27,022	\$ 134,072	\$ 161,094
Net Cost of Operations		(1,565,385)	(10,147,396)	(11,712,781)
Net Change		65,906	34,788	100,694
Cumulative Results of Operations	\$	<u><u>7,152,382</u></u>	<u><u>617,456</u></u>	<u><u>7,769,838</u></u>
Unexpended Appropriations:				
Net Position - Beginning of Period		<u>-</u>	<u>14,536,347</u>	<u>14,536,347</u>
Beginning Balances, as Adjusted	\$	\$ -	\$ 14,536,347	\$ 14,536,347
Budgetary Financing Sources:				
Appropriations Received			10,182,421	10,182,421
Appropriations Transferred In/Out (Note 31)			(17,000)	(17,000)
Other Adjustments (Note 34)			(65,989)	(65,989)
Appropriations Used			<u>(11,292,995)</u>	<u>(11,292,995)</u>
Total Budgetary Financing Sources		-	(1,193,563)	(1,193,563)
Total Unexpended Appropriations		-	13,342,784	13,342,784
TOTAL NET POSITION	\$	<u><u>7,152,382</u></u>	<u><u>13,960,240</u></u>	<u><u>21,112,622</u></u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)

	<u>FY 2011</u>	<u>FY 2010</u>
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	\$ 4,626,341	\$ 3,703,022
Adjusted Subtotal	4,626,341	3,703,022
Recoveries of Prior Year Unpaid Obligations (Note 27)	270,664	277,771
Budgetary Authority:		
Appropriation	8,648,816	10,256,166
Borrowing Authority	-	52
Spending Authority from Offsetting Collections		
Earned:		
Collected	640,123	918,786
Change in Receivables from Federal Sources	11,181	(1,746)
Change in Unfilled Customer Orders:		
Advance Received	79,380	234,559
Without Advance from Federal Sources	(15,817)	(132,489)
Expenditure Transfers from Trust Funds	35,410	36,809
Total Spending Authority from Offsetting Collections	750,277	1,055,919
Nonexpenditure Transfers, Net, Anticipated and Actual (Note 31)	1,372,575	1,369,345
Temporarily Not Available Pursuant to Public Law (Note 27)	(553)	(11,800)
Permanently Not Available (Note 27)	(179,693)	(73,453)
Total Budgetary Resources (Note 26)	<u>\$ 15,488,427</u>	<u>\$ 16,577,022</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 11,232,330	\$ 11,260,452
Reimbursable	758,247	690,229
Total Obligations Incurred (Note 26)	11,990,577	11,950,681
Unobligated Balances:		
Apportioned (Note 28)	3,326,812	4,430,813
Total Unobligated Balances	3,326,812	4,430,813
Unobligated Balances Not Available (Note 28)	171,038	195,528
Total Status of Budgetary Resources	<u>\$ 15,488,427</u>	<u>\$ 16,577,022</u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Combined Statement of Budgetary Resources
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)

	<u>FY 2011</u>	<u>FY 2010</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 13,872,909	\$ 15,788,389
Adjusted Total	13,872,909	15,788,389
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(439,956)	(573,824)
Total Unpaid Obligated Balance, Net	13,432,953	15,214,565
Obligations Incurred, Net (Note 26)	11,990,577	11,950,681
Less: Gross Outlays (Note 26)	(12,817,928)	(13,588,391)
Less: Recoveries of Prior Year Unpaid Obligations, Actual (Note 27)	(270,664)	(277,771)
Change in Uncollected Customer Payments from Federal Sources	1,528	133,869
Total, Change in Obligated Balance	12,336,466	13,432,953
 Obligated Balance, Net, End of Period:		
Unpaid Obligations	12,774,894	13,872,909
Less: Uncollected Customer Payments from Federal Sources	(438,428)	(439,956)
Total, Unpaid Obligated Balance, Net, End of Period	\$ 12,336,466	\$ 13,432,953
 NET OUTLAYS		
Net Outlays:		
Gross Outlays (Note 26)	\$ 12,817,928	\$ 13,588,391
Less: Offsetting Collections (Note 26)	(751,805)	(1,189,788)
Less: Distributed Offsetting Receipts (Notes 26 and 30)	(1,291,761)	(1,402,960)
Total, Net Outlays	<u>\$ 10,774,362</u>	<u>\$ 10,995,643</u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Statement of Custodial Activity
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)

	<u>FY 2011</u>	<u>FY 2010</u>
Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	\$ 126,212	\$ 88,318
Other	<u>(4,024)</u>	<u>18,072</u>
Total Cash Collections	\$ 122,188	\$ 106,390
Accrual Adjustment	<u>4,163</u>	<u>(16,763)</u>
Total Custodial Revenue (Note 25)	\$ <u>126,351</u>	\$ <u>89,627</u>
Disposition of Collections:		
Transferred to Others (General Fund)	\$ 122,910	\$ 105,684
Increases/Decreases in Amounts to be Transferred	<u>3,441</u>	<u>(16,057)</u>
Total Disposition of Collections	\$ <u>126,351</u>	\$ <u>89,627</u>
Net Custodial Revenue Activity (Note 25)	\$ <u>-</u>	\$ <u>-</u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Notes to the Financial Statements
Fiscal Year Ended September 30, 2011 and 2010
(Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entities

The EPA was created in 1970 by executive reorganization from various components of other federal agencies to better marshal and coordinate federal pollution control efforts. The agency is generally organized around the media and substances it regulates - air, water, hazardous waste, pesticides, and toxic substances.

The FY 2011 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

B. Basis of Presentation

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (EPA or Agency) as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the agency in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*, and the EPA accounting policies, which are summarized in this note. The Statement of Net Cost has been prepared with cost segregated by the agency's strategic goals.

C. Budgets and Budgetary Accounting

1. General Funds

Congress adopts an annual appropriation for State and Tribal Assistance Grants, Buildings and Facilities and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for Science and Technology, Environmental Programs and Management and for the OIG to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long-term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adopted a one-year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long-term cost of the Asbestos loans. The long-term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long-term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur in subsequent years after the loans were disbursed.

Funds transferred from other federal agencies are processed as non-expenditure transfers. As the agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

2. Revolving Funds

Funding of the Reregistration and Expedited Processing Fund and Pesticide Registration Funds is provided by fees collected from industry to offset costs incurred by the agency in carrying out these programs. Each year the agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other agency appropriations and other federal agencies to offset costs incurred for providing agency administrative support for computer and telecommunication services, financial system services, employee relocation services and postage.

3. Special Funds

The Environmental Services Receipt Account obtains fees associated with environmental programs.

Exxon Valdez uses funding collected from reimbursement from the Exxon Valdez settlement.

4. Deposit Funds

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. These are not the EPA's funds.

5. Trust Funds

Congress adopts an annual appropriation amount for the Superfund, LUST and the Oil Spill Response Accounts to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the agency disburses obligated amounts from the transfer account, the agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the appropriation amount to the EPA's Oil Spill Response Account.

D. Basis of Accounting

Generally Accepted Accounting Principles for federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board, which is the official standard-setting body for the federal government. The financial statements are prepared in accordance with GAAP for federal entities.

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

E. Revenues and Other Financing Sources

The following agency policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenues and Other Financing Sources."

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts and settlement proceeds from Potentially Responsible Parties under the Comprehensive Environmental Response, Compensation and Liability Act Section 122(b)(3) placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

Most of the other funds receive funding needed to support programs through appropriations that may be used within statutory limits for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program receives funding to support the subsidy cost of loans through appropriations that may be used within statutory limits. The Asbestos Direct Loan Financing fund 4322, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan.

The Federal Insecticide, Fungicide and Rodenticide Act and Pesticide Registration funds receive funding through fees collected for services provided and interest on invested funds. The WCF receives revenue through fees collected for services provided to agency program offices. Such revenue is eliminated with related agency program expenses upon consolidation of the agency's financial statements. The Exxon Valdez Settlement Fund receives funding through reimbursements.

Appropriated funds are recognized as Other Financing Sources expended when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned (i.e., when services have been rendered).

F. Funds with the Treasury

The agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds and Clearing Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable.

G. Investments in U.S. Government Securities

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity (see Note 4).

H. Notes Receivable

The agency records notes receivable at their face value and any accrued interest as of the date of receipt.

I. Marketable Securities

The agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold (see Note 4).

J. Accounts Receivable and Interest Receivable

The majority of receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, allocations receivable from Superfund (eliminated in consolidated totals), and refunds receivable for the STAG appropriation.

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by the Superfund Amendments and Reauthorization Act of 1986. Since there is no assurance that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5).

The agency records accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order or settlement is entered. These agreements are generally negotiated after at least some, but not necessarily all, of the site response costs have been incurred. It is the agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the agency within those states. As agreed to under SSCs, cost sharing arrangements may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the agency response action was removal or remedial. SSC agreements are usually for 10 percent or 50 percent of site remedial action costs, depending on who has the lead for the site (i.e., publicly or privately owned). States may pay the full amount of their share in advance or incrementally throughout the RA process.

K. Advances and Prepayments

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the agency for which a budgetary expenditure has not yet occurred.

L. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991 are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

M. Appropriated Amounts Held by Treasury

For the Superfund and LUST Trust Funds and for amounts appropriated from the Superfund Trust Fund to the OIG, cash available to the agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury.

N. Property, Plant and Equipment

The EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment." For EPA-held property, the Fixed Assets Subsystem automatically generates depreciation entries monthly based on acquisition dates.

A purchase of EPA-held or contract personal property is capitalized if it is valued at \$25,000 or more and has an estimated useful life of at least two years. For contractor held property, depreciation is taken on a modified straight-line basis over a period of six years depreciating 10 percent the first and sixth year, and 20 percent in years 2 through 5. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 15 years.

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the minimum lease payments must be \$75,000 or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an \$85,000 capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership to the EPA, contains a bargain purchase option, the lease term is equal to 75 percent or more of the estimated service life, or the present value of the lease and other minimum lease payments equal or exceed 90 percent of the fair value.

Superfund contract property used as part of the remedy for site-specific response actions is capitalized in accordance with the agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, the EPA retains control of the property (i.e., pump and treat facility) for 10 years or less, and transfers its interest in the facility to the respective state for mandatory operation and maintenance – usually 20 years or more. Consistent with the EPA's 10-year retention period, depreciation for this property is based on a 10-year life. However, if any property is transferred to a state in a year or less, this property is charged to expense. If any property is sold prior to the EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

An exception to the accounting of contract property includes equipment purchased by the WCF. This property is retained in FAS and depreciated utilizing the straight-line method based upon the asset's acquisition date and useful life.

Real property consists of land, buildings, capital and leasehold improvements and capital leases. Real property, other than land, is capitalized when the value is \$85,000 or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value if purchased prior to FY 1997. Real property purchased after FY 1996 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

Software for the WCF, a revenue generating activity, is capitalized if the purchase price is \$100,000 or more with an estimated useful life of two years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from two to 10 years.

O. Liabilities

Liabilities represent the amount of monies or other resources that are more likely than not to be paid by the agency as the result of an agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the agency arising from other than contracts can be abrogated by the government acting in its sovereign capacity.

P. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. Interest Payable to Treasury

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt.

R. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 33 as a component of "Payroll and Benefits Payable."

S. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987 may participate in the Civil Service Retirement System. On January 1, 1984, the Federal Employees Retirement System went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management, as administrator of the CSRS and FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

T. Prior Period Adjustments and Restatements

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to 1) the current period financial statements and 2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

U. ARRA Funds

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009. The Act was enacted to create jobs in the United States, encourage technical advances, assist in modernizing the nation's infrastructure and enhance energy independence. The EPA was charged with the task of distributing funds to invest in various projects aimed at creating advances in science, health and environmental protection that will provide long-term economic benefits.

The EPA manages almost \$7.22 billion in ARRA funded projects and programs that will help achieve these goals, offer resources to help other "green" agencies, and administer environmental laws that will govern Recovery activities. As of September 30, 2011, the EPA has paid out \$6.31 billion. The EPA, in collaboration with states, tribes, local governments, territories and other partners, is administering the funds it received under the ARRA through four appropriations. The funds include:

STAGs that in turn include: \$4 billion for assistance to help communities with water quality and wastewater infrastructure needs and \$2 billion for drinking water infrastructure needs (Clean Water and Drinking Water State Revolving Fund programs and Water Quality Planning program); \$100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program); \$300 million for grants and loans to help regional, state and local governments, tribal agencies, and non-profit organizations with projects that reduce diesel emissions (Clean Diesel programs); \$600 million for the cleanup of hazardous sites (Superfund program); \$200 million for cleanup of petroleum leaks from underground storage tanks (LUST program); and \$20 million for audits and investigations conducted by the IG.

The EPA has committed to focusing on the following areas: Clean Diesel Emissions, Superfund Hazardous Waste Cleanup, Cleaner Underground Storage Tank Sites, Revitalized Neighborhoods from Brownfields and Cleaner Water and Drinking Water Infrastructures.

The vast majority of the contracts awarded under the ARRA will be entered into using competitive contracts. The EPA is committed fully to ensuring transparency and accountability throughout the agency in spending ARRA funds in accordance with OMB guidance.

The EPA has set up a Stimulus Steering Committee that meets to review and report on the status of the distribution of the ARRA funds to ensure transparency and accuracy. The EPA has also developed a Stewardship Plan that is an agency-level risk mitigation plan that sets out the agency's ARRA risk assessment, internal controls and monitoring activities. The Stewardship Plan is divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting and financial reporting. The Stewardship Plan was developed around Government Accountability Office standards for internal control. Under each functional area, risks are assessed and related control, communication and monitoring activities are identified for each impacted program. The Stewardship Plan is a dynamic document; the EPA will update the Stewardship Plan as revised OMB guidance is issued or additional risks are uncovered.

The EPA has the three-year EPM treasury symbol 689/10108 that is under the ARRA. The EPA's other ARRA programs are the following: OIG, treasury symbol 689/20113; STAG, treasury symbol 689/00102; Payment to the Superfund, treasury symbol 689/00249; Superfund, treasury symbol 689/08195; and LUST, treasury symbol 689/08196.

V. Deepwater Horizon Oil Spill

On April 20, 2010, the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, British Petroleum is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. In FY 2011, the EPA continued to work on the cleanup effort in conjunction with the U.S. Coast Guard, who was named the lead Federal On-Scene Coordinator, and is assisting the Department of Justice on the pending civil litigation.

W. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Fund Balance with Treasury

FBWT as of September 30, 2011 and 2010, consists of the following:

	FY 2011			FY 2010		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	\$ 114,540	\$ -	\$ 114,540	\$ 106,247	\$ -	\$ 106,247
LUST	60,558	-	60,558	55,132	-	55,132
Oil Spill & Misc.	4,085	-	4,085	9,644	-	9,644
Revolving Funds:						
FIFRA/Tolerance	3,571	-	3,571	4,204	-	4,204
Working Capital	68,776	-	68,776	80,485	-	80,485
Cr. Reform Finan.	390	-	390	390	-	390
Appropriated	12,086,770	-	12,086,770	14,049,511	-	14,049,511
Other Fund Types	314,522	9,329	323,851	289,149	8,262	297,411
Total	\$ 12,653,212	\$ 9,329	\$ 12,662,541	\$ 14,594,762	\$ 8,262	\$ 14,603,024

Entity fund balances, except for special fund receipt accounts, are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Entity Assets for Other Fund Types consist of special purpose funds and special fund receipt accounts, such as the Pesticide Registration funds and the Environmental Services receipt account. The Non-Entity Assets for Other Fund Types consist of clearing accounts and deposit funds, which are either awaiting documentation for the determination of proper disposition or being held by the EPA for other entities.

Status of Fund Balances:	<u>FY 2011</u>	<u>FY 2010</u>
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 3,326,812	\$ 4,430,813
Unavailable for Obligation	171,038	195,529
Net Receivables from Invested Balances	(3,485,275)	(3,736,818)
Balances in Treasury Trust Fund (Note 38)	1,310	(1,115)
Obligated Balance not yet Disbursed	12,336,466	13,432,954
Non-Budgetary FBWT	312,190	281,661
Totals	\$ <u>12,662,541</u>	\$ <u>14,603,024</u>

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which

are available only for adjustments of existing obligations. For FY 2011 and FY 2010 no differences existed between Treasury's accounts and the EPA's statements for fund balances with Treasury.

Note 3. Cash and Other Monetary Assets

As of September 30, 2011 and 2010, the balance in the imprest fund was \$10,000.

Note 4. Investments

As of September 30, 2011 and 2010, investments related to Superfund and LUST consist of the following:

		Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Intragovernmental Securities:						
Non-Marketable	FY 2011	\$ 6,959,480	\$ (137,103)	\$ 15,614	\$ 7,112,197	\$ 7,112,197
Non-Marketable	FY 2010	\$ 7,079,053	\$ (139,302)	\$ 25,258	\$ 7,243,613	\$ 7,243,613

CERCLA, as amended by SARA, authorizes the EPA to recover monies to clean up Superfund sites from responsible parties. Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, the EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable (see Note 6). All investments in Treasury securities are earmarked funds (see Note 19).

The federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the EPA as evidence of its receipts. Treasury securities are an asset to the EPA and a liability to the Treasury. Because the EPA and the Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or liability in the U.S. governmentwide financial statements.

Treasury securities provide the EPA with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the EPA requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

Note 5. Accounts Receivable, Net

The Accounts Receivable as of September 30, 2011 and 2010 consist of the following:

	<u>FY 2011</u>	<u>FY 2010</u>
Intragovernmental:		
Accounts & Interest Receivable	\$ 35,518	\$ 45,698
Total	\$ <u>35,518</u>	\$ <u>45,698</u>
Non-Federal:		
Unbilled Accounts Receivable	\$ 159,170	\$ 143,444
Accounts & Interest Receivable	2,176,215	1,958,981
Less: Allowance for Uncollectibles	<u>(1,821,195)</u>	<u>(1,684,890)</u>
Total	\$ <u>514,190</u>	\$ <u>417,535</u>

The Allowance for Uncollectible Accounts is determined both on a specific identification basis, as a result of a case-by-case review of receivables, and on a percentage basis for receivables not specifically identified.

Note 6. Other Assets

Other Assets as of September 30, 2011 and 2010 consist of the following:

	<u>FY 2011</u>	<u>FY 2010</u>
Intragovernmental:		
Advances to Federal Agencies	\$ 251,649	\$ 223,165
Advances for Postage	154	131
Total	\$ <u>251,803</u>	\$ <u>223,296</u>
Non-Federal:		
Travel Advances	\$ 486	\$ 432
Letter of Credit Advances	-	9
Other Advances	1,838	2,105
Operating Materials and Supplies	140	149
Inventory for Sale	<u>102</u>	<u>139</u>
Total	\$ <u>2,566</u>	\$ <u>2,834</u>

Note 7. Loans Receivable, Net

Loans Receivable consists of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2011 and 2010 are as follows:

	<u>FY 2011</u>			<u>FY 2010</u>		
	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	\$ 44	\$ -	\$ 44	\$ 545	\$ -	\$ 545
Direct Loans Obligated After FY 1991	2,194	(131)	2,063	4,931	(222)	4,709
Total	\$ 2,238	\$ (131)	\$ 2,107	\$ 5,476	\$ (222)	\$ 5,254

* Allowance for Pre-Credit Reform loans (prior to FY 1992) is the Allowance for Estimated Uncollectible Loans, and the Allowance for Post Credit Reform Loans (after FY 1991) is the Allowance for Subsidy Cost (present value).

During FY 2008, the EPA made a payment within the Treasury for the Asbestos Loan Program based on an upward re-estimate of \$33,000 for increased loan financing costs. It was believed that the payment only consisted of "interest" costs and, as such, an automatic apportionment, per OMB Circular A-11, Section 120.83, was deemed appropriate. However, approximately one-third (\$12,000) of the \$33,000 re-estimate was for increased "subsidy" costs which requires an approved apportionment by OMB before any payment could be made. Therefore, the payment resulted in a minor technical Anti-deficiency Act violation. On October 13, 2009, the EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the 1) President, 2) President of the Senate, 3) Speaker of the House of Representatives, 4) Comptroller General and 5) the Director of OMB. On May 18, 2011, the EPA sent a supplemental letter to the OMB Director to further identify the names of the persons responsible for the violation, and that they were not suspected of willfully or knowingly violating the ADA.

Subsidy Expenses for Credit Reform Loans (reported on a cash basis):

	Interest Rate Re-estimate	Technical Re-estimate	Total
Upward Subsidy Reestimate – FY 2011	\$ 104	\$ 39	\$ 143
Downward Subsidy Reestimate - FY 2011			-
FY 2011 Totals	\$ 104	\$ 39	\$ 143
Upward Subsidy Reestimate – FY 2010	\$ 5	\$ 2	\$ 7
Downward Subsidy Reestimate - FY 2010	(35)	(16)	(51)
FY 2010 Totals	\$ (30)	\$ (14)	\$ (44)

Schedule for Reconciling Subsidy Cost Allowance Balances
(Post-1991 Direct Loans)

	<u>FY 2011</u>	<u>FY 2010</u>
Beginning balance of the subsidy cost allowance	\$ (222)	\$ (948)
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
Interest rate differential costs		
Default costs (net of recoveries)		
Fees and other collections		
Other subsidy costs		
Total of the above subsidy expense components	<u>\$ -</u>	<u>\$ -</u>
Adjustments:		
Loan Modification		
Fees received		
Foreclosed property acquired		
Loans written off		
Subsidy allowance amortization	234	477
Other		
End balance of the subsidy cost allowance before reestimates	<u>234</u>	<u>477</u>
Add or subtract subsidy reestimates by component:		
(a) Interest rate reestimate	(104)	176
(b) Technical/default reestimate	<u>(39)</u>	<u>73</u>
Total of the above reestimate components	(143)	249
Ending Balance of the subsidy cost allowance	\$ (131)	\$ (222)

EPA has not disbursed Direct Loans since 1993.

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2011 and 2010:

	<u>FY 2011</u>	<u>FY 2010</u>
Intragovernmental:		
Accounts Payable	\$ 62	\$ 1,466
Accrued Liabilities	<u>52,386</u>	<u>49,859</u>
Total	<u>\$ 52,448</u>	<u>\$ 51,325</u>
 Non-Federal:		
Accounts Payable	\$ 69,505	\$ 118,033
Advances Payable	3	8
Interest Payable	7	7
Grant Liabilities	503,249	650,526
Other Accrued Liabilities	<u>344,002</u>	<u>262,874</u>
Total	<u>\$ 916,766</u>	<u>\$ 1,031,448</u>

Other Accrued Liabilities primarily relate to contractor accruals.

Note 9. General Property, Plant and Equipment, Net

General property, plant and equipment consist of software, real property, the EPA and contractor-held personal property and capital leases.

As of September 30, 2011 and 2010, General PP&E consist of the following:

		<u>FY 2011</u>	<u>Net Book Value</u>		<u>FY 2010</u>	<u>Net Book Value</u>
	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>		<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	
EPA-Held Equipment	\$ 255,049	\$ (147,219)	\$ 107,830	\$ 252,920	\$ (145,672)	\$ 107,248
Software	527,603	(190,302)	337,301	443,847	(158,034)	285,813
Contractor Held Equip.	66,808	(22,104)	44,704	95,494	(39,225)	56,269
Land and Buildings	653,518	(188,382)	465,136	630,252	(177,654)	452,598
Capital Leases	35,440	(23,612)	11,828	35,440	(22,247)	13,193
Total	\$ 1,538,418	\$ (571,619)	\$ 966,799	\$ 1,457,953	\$ (542,832)	\$ 915,121

Note 10. Debt Due to Treasury

The debt due to Treasury consists of borrowings to finance the Asbestos Loan Program. The debt to Treasury as of September 30, 2011 and 2010 is as follows:

<u>All Other Funds</u>		<u>FY 2011</u>			<u>FY 2010</u>	
	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
Intragovernmental:						
Debt to Treasury	\$ 4,844	\$ (2,251)	\$ 2,593	\$ 9,983	\$ (5,139)	\$ 4,844

Note 11. Stewardship Land

The agency acquires title to certain property and property rights under the authorities provided in CERCLA Section 104(j) related to remedial clean-up sites. The property rights are in the form of fee interests (ownership) and easements to allow access to clean-up sites or to restrict usage of remediated sites. The agency takes title to the land during remediation and transfers it to state or local governments upon the completion of cleanup. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred under the terms of 104(j).

As of September 30, 2011, the agency possesses the following land and land rights:

	<u>FY 2011</u>	<u>FY 2010</u>
Superfund Sites with Easements		
Beginning Balance	35	33
Additions	1	2
Withdrawals	0	0
Ending Balance	<u>36</u>	<u>35</u>
 Superfund Sites with Land Acquired		
Beginning Balance	32	30
Additions	4	2
Withdrawals	2	0
Ending Balance	<u>34</u>	<u>32</u>

Note 12. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2011 and 2010, custodial liability is approximately \$57 million and \$53 million, respectively.

Other Liabilities consist of the following as of September 30, 2010:

Other Liabilities – Intragovernmental	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Current			
Employer Contributions & Payroll Taxes\$	22,585\$	\$	22,585
WCF Advances	1,706	-	1,706
Other Advances	52,596	-	52,596
Advances, HRSTF Cashout	20,431	-	20,431
Deferred HRSTF Cashout	1,831	-	1,831
Liability for Deposit Funds	-	-	-
Resources Payable to Treasury	649	-	649
Subsidy Payable to Treasury	256	-	256
Non-Current			
Unfunded FECA Liability	-	10,232	10,232
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	\$ 100,054	\$ 32,232	\$ 132,286
Other Liabilities - Non-Federal			
Current			
Unearned Advances	\$ 65,314	-\$	65,314
Liability for Deposit Funds	8,128	-	8,128
Contract Holdbacks	155	-	155
Non-Current			
Other Liabilities	-	200	200
Capital Lease Liability	-	26,199	26,199
Total Non-Federal	\$ 73,597	\$ 26,399	\$ 99,996

Note 14. Leases

Capital Leases:

The value of assets held under Capital Leases as of September 30, 2011 and 2010 are as follows:

Summary of Assets Under Capital Lease:	FY 2011	FY 2010
Real Property	\$ 35,285	\$ 35,285
Personal Property	155	155
Software License	-	-
Total	\$ 35,440	\$ 35,440
Accumulated Amortization	\$ 23,612	\$ 22,246

The EPA had two capital leases for land and buildings housing scientific laboratories and computer facilities. All of these leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. Two leases terminate in FY 2013 and FY 2025.

Note 13. Other Liabilities

Other Liabilities consist of the following as of September 30, 2011:

Other Liabilities – Intragovernmental	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Current			
Employer Contributions & Payroll Taxes\$	25,495 \$	-\$	25,495
WCF Advances	1,337	-	1,337
Other Advances	38,981	-	38,981
Advances, HRSTF Cashout	34,979	-	34,979
Deferred HRSTF Cashout	-	-	-
Liability for Deposit Funds	-	-	-
Resources Payable to Treasury	3	-	3
Subsidy Payable to Treasury	-	-	-
Non-Current			
Unfunded FECA Liability	-	10,115	10,115
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	\$ 100,795\$	32,115\$	132,910
Other Liabilities - Non-Federal			
Current			
Unearned Advances, Non-Federal \$	70,084 \$	-\$	70,084
Liability for Deposit Funds, Non-Federal	9,194	-	9,194
Contract Holdbacks	-	-	-
Non-Current			
Other Liabilities	-	-	-
Capital Lease Liability	-	24,711	24,711
Total Non-Federal	\$ 79,278 \$	24,711\$	103,989

The total future minimum capital lease payments are listed as follows:

<u>Future Payments Due:</u>	
Fiscal Year	Capital Leases
2012	\$ 5,714
2013	5,714
2014	4,215
2015	4,215
After 5 years	39,340
Total Future Minimum Lease Payments	59,198
Less: Imputed Interest	\$ (34,487)
Net Capital Lease Liability	24,711
Liabilities not Covered by Budgetary Resources	\$ 24,711

(See Note 13)

Operating Leases:

The U.S. General Services Administration provides leased real property (land and buildings) as office space for the EPA's employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties.

The EPA had two direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. Two leases expire in FY 2017 and FY 2020. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

<u>Fiscal Year</u>	<u>Operating Leases, Land and Buildings</u>
2012	\$ 89
2013	89
2014	89
2015	89
Beyond 2015	285
Total Future Minimum Lease Payments	\$ 641

Note 15. Federal Employees' Compensation Act Actuarial Liabilities

FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, the EPA is allocated the portion of the long-term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability as of September 30, 2011 and 2010 was \$44.8 million and \$44.9 million, respectively. The FY 2011 present value of these estimated outflows is calculated using a discount rate of 3.535 percent in the first year, and 4.025 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 16. Cashout Advances, Superfund

Cashout advances are funds received by the EPA, a state or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by the EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other federal agencies to conduct or finance response actions in lieu of the EPA without further appropriation by Congress. As of September 30, 2011 and 2010, cashouts are approximately \$790 million and \$637 million, respectively.

Note 17. Unexpended Appropriations – Other Funds

As of September 30, 2011 and 2010, the Unexpended Appropriations consist of the following:

Unexpended Appropriations:	<u>FY 2011</u>	<u>FY 2010</u>
Unobligated		
Available	\$ 1,151,603	\$ 184,815
Unavailable	74,517	275,592
Undelivered Orders	10,236,478	12,882,377
Total	\$ <u>11,462,598</u>	\$ <u>13,342,784</u>

Note 18. Commitments and Contingencies

The EPA may be a party in various administrative proceedings, actions and claims brought by or against it. These include:

- Various personnel actions, suits or claims brought against the agency by employees and others.
- Various contract and assistance program claims brought against the agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds, which may be settled by a reduction of future agency funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2011 and 2010 total accrued liabilities for commitments and potential loss contingencies is \$10.2 million and \$4.37 million, respectively. Further discussion of the cases and claims that give rise to this accrued liability are discussed immediately below.

Litigation Claims and Assessments

There is currently one legal claim that has been asserted against the EPA pursuant to the Federal Tort Claims and Fair Labor Standards Acts. This loss has been deemed probable, and the unfavorable outcome is estimated to be between \$10 million and \$15 million. The EPA has accrued the higher conservative amount as of September 30, 2011. The maximum amount of exposure under the claim could range as much as \$15 million in the aggregate.

Superfund

Under CERCLA Section 106(a), the EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition the EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

Judgment Fund

In cases that are paid by the U.S. Treasury Judgment Fund, the EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions."

As of September 30, 2011, there are no material claims pending in the Treasury's Judgment Fund. However, the EPA has a \$22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

Other Commitments

The EPA has a commitment to fund the United States government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as the Commission for Environmental Cooperation). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. For the periods ended September 30, 2011 and 2010, the EPA paid \$3 million for each of these periods to the CEC. A payment of \$3 million was made in FY 2011.

The EPA has a legal commitment under a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Program. This agreement enables the EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. The EPA made payments totaling \$8.35 million in FY 2011. Future payments totaling \$11 million have been deemed reasonably possible and are anticipated to be paid in FY 2012 through 2014.

Note 19. Earmarked Funds

	Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds
Balance sheet as of September 30, 2011					
Assets					
Fund Balance with Treasury	\$ 302,677	\$ 60,558	\$ 114,540	\$ 19,500	\$ 497,275
Investments	-	3,535,052	3,577,145	-	7,112,197
Accounts Receivable, Net	-	-	445,303	16,866	462,169
Other Assets	-	347	118,355	4,415	123,117
Total Assets	<u>302,677</u>	<u>3,595,957</u>	<u>4,255,343</u>	<u>40,781</u>	<u>8,194,758</u>
Other Liabilities	\$ -	\$ 20,757	\$ 1,111,724	\$ 35,114	\$ 1,167,595
Total Liabilities	<u>\$ -</u>	<u>\$ 20,757</u>	<u>\$ 1,111,724</u>	<u>\$ 35,114</u>	<u>\$ 1,167,595</u>
Cumulative Results of Operations	\$ 302,677	\$ 3,575,200	\$ 3,146,619	\$ 5,667	\$ 7,027,163
Total Liabilities and Net Position	<u>\$ 302,677</u>	<u>\$ 3,595,957</u>	<u>\$ 4,255,343</u>	<u>\$ 40,781</u>	<u>\$ 8,194,758</u>
Statement of Changes in Net Cost for the Period Ended September 30, 2011					
Gross Program Costs	\$ -	\$ 209,613	\$ 1,908,317	\$ 124,214	\$ 2,242,144
Less: Earned Revenues	-	-	532,006	110,839	642,845
Net Cost of Operations	<u>\$ -</u>	<u>\$ 209,613</u>	<u>\$ 1,376,311</u>	<u>\$ 13,375</u>	<u>\$ 1,599,299</u>
Statement of Changes in Net Position for the Period ended September 30, 2011					
Net Position, Beginning of Period	\$ 273,416	\$ 3,539,217	\$ 3,340,498	\$ (749)	\$ 7,152,382
Nonexchange Revenue- Securities Investments	-	93,156	27,266	7	120,429
Nonexchange Revenue	29,261	152,127	3,596	-	184,984
Other Budgetary Finance Sources	-	-	1,120,663	18,342	1,139,005
Other Financing Sources	-	314	27,907	1,441	29,662
Net Cost of Operations	-	(209,613)	(1,376,311)	(13,375)	(1,599,299)
Change in Net Position	<u>\$ 29,261</u>	<u>\$ 35,984</u>	<u>\$ (196,879)</u>	<u>\$ 6,415</u>	<u>\$ (125,219)</u>
Net Position	<u>\$ 302,677</u>	<u>\$ 3,575,201</u>	<u>\$ 3,143,619</u>	<u>\$ 5,666</u>	<u>\$ 7,027,163</u>

Balance sheet as of September 30, 2010	Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds
Assets					
Fund Balance with Treasury	\$ 273,420	\$ 55,132	\$ 106,247	\$ 29,578	\$ 464,377
Investments	-	3,502,913	3,740,700	-	7,243,613
Accounts Receivable, Net	-	-	391,388	7,697	399,085
Other Assets	-	266	115,729	6,199	122,194
Total Assets	<u>273,420</u>	<u>3,558,311</u>	<u>4,354,064</u>	<u>43,474</u>	<u>8,229,269</u>
Other Liabilities	\$ 4	\$ 19,094	\$ 1,013,566	\$ 44,223	\$ 1,076,887
Total Liabilities	<u>4</u>	<u>19,094</u>	<u>1,013,566</u>	<u>44,223</u>	<u>1,076,887</u>
Cumulative Results of Operations	\$ 273,416	\$ 3,539,217	\$ 3,340,498	(749)	\$ 7,152,382
Total Liabilities and Net Position	<u>273,420</u>	<u>3,558,311</u>	<u>4,354,064</u>	<u>43,474</u>	<u>8,229,269</u>
Statement of Net Cost for the Period Ended September 30, 2010					
Gross Program Costs	\$ -	\$ 181,870	\$ 1,844,712	\$ 121,214	\$ 2,147,796
Less: Earned Revenues	<u>-</u>	<u>-</u>	<u>484,165</u>	<u>98,246</u>	<u>582,411</u>
Net Cost of Operations	<u>-</u>	<u>181,870</u>	<u>1,360,547</u>	<u>22,968</u>	<u>1,565,385</u>
Statement of Changes in Net Position for the Period ended September 30, 2010					
Net Position, Beginning of Period	\$ 231,820	\$ 3,436,303	\$ 3,416,536	\$ 1,817	\$ 7,086,476
Nonexchange Revenue- Securities Investments	-	115,523	14,968	13	130,504
Nonexchange Revenue	41,596	168,990	3,396	2	213,984
Other Budgetary Finance Sources	-	-	1,241,402	18,379	1,259,781
Other Financing Sources	-	271	24,743	2,008	27,022
Net Cost of Operations	-	(181,870)	(1,360,547)	(22,968)	(1,565,385)
Change in Net Position	<u>41,596</u>	<u>102,914</u>	<u>(76,038)</u>	<u>(2,566)</u>	<u>65,906</u>
Net Position	<u>273,416</u>	<u>3,539,217</u>	<u>3,340,498</u>	<u>(749)</u>	<u>7,152,382</u>

Earmarked funds are as follows:

Environmental Services Receipt Account: The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts if authorized by Congress in the agency's appropriations bill.

LUST Trust Fund: The LUST Trust Fund was authorized by the Superfund Amendments and Reauthorization Act of 1986 as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The agency oversees cleanup and enforcement programs that are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and ARRA. The program is financed by a one cent per gallon tax on motor fuels that will expire on September 30, 2011.

Superfund Trust Fund: In 1980, the Superfund Trust Fund was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous

waste sites qualifying for the agency's National Priorities List are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections, special account receipts from settlement agreements, and investment activity.

Other Earmarked Funds:

Oil Spill Liability Trust Fund: The Oil Spill Liability Trust Fund was authorized by the Oil Pollution Act of 1990. Monies are appropriated from the Oil Spill Liability Trust Fund to EPA's Oil Spill Response Account each year. The agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This responsibility involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for specific oil spill cleanup actions is provided through the U.S. Coast Guard from the Oil Spill Liability Trust Fund through reimbursable Pollution Removal Funding Agreements and other inter-agency agreements.

Miscellaneous Contributed Funds Trust Fund: The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended P.L. 92-500 (The Federal Water Pollution Control Act Amendments of 1972), includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

Pesticide Registration Fund: The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," and reauthorized in 2007 for five more years, for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

Reregistration and Expedited Processing Fund: The Revolving Fund was authorized by the FIFRA of 1972, as amended by the FIFRA Amendments of 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

Tolerance Revolving Fund: The Tolerance Revolving Fund was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently, collection of these fees is prohibited by statute, enacted in the Consolidated Appropriations Act, 2004 (P.L. 108-199).

Exxon Valdez Settlement Fund: The Exxon Valdez Settlement Fund authorized by P.L. 102-389, "Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1993," has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

Note 20. Intragovernmental Costs and Exchange Revenue

Exchange, or earned revenues on the Statement of Net Cost include income from services provided to federal agencies and the public, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue.

	FY 2011			FY 2010		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Clean Air						
Program Costs	\$ 159,456	\$ 1,035,680	\$ 1,195,136	\$ 170,677	\$ 1,048,124	\$ 1,218,801
Earned Revenue	13,586	1,034	14,620	18,923	5,906	24,829
NET COST	\$ 145,870	\$ 1,034,646	\$ 1,180,516	\$ 151,754	\$ 1,042,218	\$ 1,193,972
Clean and Safe Water						
Program Costs	\$ 252,748	\$ 5,125,894	\$ 5,378,642	\$ 193,456	\$ 6,197,330	\$ 6,390,786
Earned Revenue	7,333	1,458	8,791	2,803	2,524	5,327
NET COSTS	\$ 245,415	\$ 5,124,436	\$ 5,369,851	\$ 190,653	\$ 6,194,806	\$ 6,385,459
Land Preservation & Restoration						
Program Costs	\$ 390,431	\$ 2,180,996	\$ 2,571,427	\$ 342,734	\$ 2,096,211	\$ 2,438,945
Earned Revenue	124,874	494,249	619,123	103,687	446,569	550,256
NET COSTS	\$ 265,557	\$ 1,686,747	\$ 1,952,304	\$ 239,047	\$ 1,649,642	\$ 1,888,689
Healthy Communities & Ecosystems						
Program Costs	\$ 335,757	\$ 1,289,505	\$ 1,625,262	\$ 293,850	\$ 1,265,653	\$ 1,559,503
Earned Revenue	12,010	38,725	50,735	64,034	44,144	108,178
NET COSTS	\$ 323,747	\$ 1,250,780	\$ 1,574,527	\$ 229,816	\$ 1,221,509	\$ 1,451,325
Compliance & Environmental Stewardship						
Program Costs	\$ 192,243	\$ 614,514	\$ 806,757	\$ 182,299	\$ 615,931	\$ 798,230
Earned Revenue	3,607	1,455	5,062	3,400	1,494	4,894
NET COSTS	\$ 188,636	\$ 613,059	\$ 801,695	\$ 178,899	\$ 614,437	\$ 793,336
Total						
Program Costs	\$ 1,330,635	\$ 10,246,589	\$ 11,577,224	\$ 1,183,016	\$ 11,223,249	\$ 12,406,265
Earned Revenue	161,410	536,921	698,331	192,847	500,637	693,484
NET COSTS	\$ 1,169,225	\$ 9,709,668	\$ 10,878,893	\$ 990,169	\$ 10,722,612	\$ 11,712,781

Intragovernmental costs relate to the source of goods or services not the classification of the related revenue.

Note 21. Cost of Stewardship Land

There were costs of approximately \$438,000 related to the acquisition of stewardship land for September 30, 2011, and no costs for September 30, 2010. These costs are included in the Statement of Net Cost.

Note 22. Environmental Cleanup Costs

As of September 30, 2011, the EPA has two sites that requires clean up stemming from its activities. For sites that had previously been listed, it was determined by the EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: 1) although the EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to the EPA; 2) any demand against the EPA will be resolved only

after the Superfund cleanup work is completed, which may be years in the future; and 3) there was no legal activity on these matters in FY2010 or in FY2011.

Accrued Cleanup Cost:

The EPA has 15 sites that will require permanent closure, and the EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2011 and 2010, the estimated costs for site cleanup were \$20.84 million and \$20.15 million, respectively. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, the EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

Note 23. State Credits

Authorizing statutory language for Superfund and related federal regulations requires states to enter into Superfund State Contracts when the EPA assumes the lead for a RA in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that it will share in the cost of the RA. Under Superfund's authorizing statutory language, states will provide the EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, RA and enforcement) at publicly operated sites. In some cases, states may use the EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. The credit is limited to state site-specific expenses the EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-federal funds for RA.

Once the EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by the EPA. As of September 30, 2011 and 2010, the total remaining state credits have been estimated at \$22.2 million and \$21.0 million, respectively.

Note 24. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that the EPA will reimburse them a certain percentage of their total response action costs. The EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2011, the EPA had four outstanding preauthorized mixed funding agreements with obligations totaling \$11.5 million. As of September 30, 2010, the EPA had six outstanding preauthorized mixed funding agreements with obligations totaling \$15.6 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by the EPA for payment. Further, the EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by the EPA.

Note 25. Custodial Revenues and Accounts Receivable

	FY 2011	FY 2010
Fines, Penalties and Other Miscellaneous Receipts	<u>126,351</u>	<u>89,627</u>
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:		
Accounts Receivable	\$ 236,313	\$ 229,658
Less: Allowance for Uncollectible Accounts	<u>(184,366)</u>	<u>(181,153)</u>
Total	<u>\$ 51,947</u>	<u>\$ 48,505</u>

The EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectability by the EPA of the fines and penalties is based on the PRPs' willingness and ability to pay.

Note 26. Reconciliation of President's Budget to the Statement of Budgetary Resources

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2011 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2012 Budget of the United States government when they become available. The Budget of the United States government with actual numbers for FY 2011 has not yet been published. The EPA expects it will be published by early 2012, and it will be available on the OMB website at <http://www.whitehouse.gov/>. The actual amounts published for the year ended September 30, 2010 are listed immediately below:

FY 2010	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 16,577,022	\$ 11,950,68	\$ 1,402,960	\$ 12,398,603
Expired and Immaterial Funds*	(189,104)			(281)
68X6275 adjustment			(6,290)	
Rounding Differences**	2,082	1,319	330	678
Reported in Budget of the U. S. Government	<u>\$ 16,390,000</u>	<u>\$ 11,952,000</u>	<u>\$ 1,397,000</u>	<u>\$ 12,399,000</u>

* Expired funds are not included in Budgetary Resources Available for Obligation in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.

** Balances are rounded to millions in the Budget Appendix.

Note 27. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2011 and 2010:

	<u>FY 2011</u>	<u>FY 2010</u>
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	\$ 270,664	\$ 277,771
Temporarily Not Available - Rescinded Authority	(553)	(11,800)
Permanently Not Available:		
Payments to Treasury	(2,508)	(5,191)
Rescinded authority	(157,166)	(52,897)
Canceled authority	(20,019)	(15,365)
Total Permanently Not Available	\$ (179,693)	\$ (73,453)

Note 28. Unobligated Balances Available

Unobligated balances are a combination of two lines on the Statement of Budgetary Resources: Apportioned, Unobligated Balances and Unobligated Balances Not Available. Unexpired unobligated balances are available to be apportioned by OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

The unobligated balances available consist of the following as of September 30, 2011 and 2010:

	<u>FY 2011</u>	<u>FY 2010</u>
Unexpired Unobligated Balance	\$ 3,325,991	\$ 4,441,115
Expired Unobligated Balance	171,859	185,226
Total	\$ 3,497,850	\$ 4,626,341

Note 29. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders at September 30, 2011 and 2010 were \$11.91 billion and \$12.88 billion, respectively.

Please note that in FY 2010, Undelivered Orders at the End of the Period inadvertently excluded the paid portion of undelivered orders and were highlighted as \$12.63 billion.

Note 30. Offsetting Receipts

Distributed offsetting receipts credited to the General Fund, Special Fund or Trust Fund receipt accounts offset gross outlays. For FY 2011 and 2010, the following receipts were generated from these activities:

	<u>FY 2011</u>	<u>FY 2010</u>
Trust Fund Recoveries	\$ 97,623	\$ 53,247
Special Fund Environmental Service	29,257	41,599
Downward Re-estimates of Subsidies	-	51
Trust Fund Appropriation	1,156,073	1,280,570
Special Fund Receipt Account and Treasury	-	-
Miscellaneous Receipt and Clearing Accounts	8,808	27,493
Total	\$ <u>1,291,761</u>	\$ <u>1,402,960</u>

Note 31. Transfers-In and Out, Statement of Changes in Net Position

Appropriation Transfers, In/Out:

For FY 2011 and 2010, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follows for September 30, 2011 and 2010:

Transfers In/Out Without Reimbursement, Budgetary:

Fund/Type of Account	<u>FY 2011</u>	<u>FY 2010</u>
Army Corps of Engineers	\$ 1,750	\$ (9,000)
U.S. Navy		(8,000)
Small Business Administration		-
Total Appropriation Transfers (Other Funds)	<u>1,750</u>	<u>(17,000)</u>
Net Transfers from Invested Funds	<u>1,370,349</u>	<u>1,386,345</u>
Transfers to Another Agency	1,750	(17,000)
Allocations Rescinded	\$ <u>476</u>	\$ <u>-</u>
Total of Net Transfers on Statement of Budgetary Resources	\$ <u>1,372,575</u>	\$ <u>1,369,345</u>

For FY 2011 and 2010, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other federal agencies and between the EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and nonexpenditure, are listed as follows for September 30, 2011 and 2010:

Type of Transfer/Funds	FY 2011		FY 2010	
	Earmarked	Other Funds	Earmarked	Other Funds
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	\$ (35,410)	\$ 35,410	\$ (39,168)	\$ 33,859
Transfer-in nonexpenditure recovery from CDC			-	-
Transfers-in nonexpenditure, Oil Spill	18,342		18,379	-
Transfer-in (out) cancelled funds			-	-
Total Transfer in (out) without Reimbursement, Budgetary	<u>\$ (17,068)</u>	<u>\$ 35,410</u>	<u>\$ (20,789)</u>	<u>\$ 33,859</u>

Transfers In/Out without Reimbursement, Other Financing Sources:

For FY 2011 and 2010, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of negative subsidy to a special receipt fund for the credit reform funds.

The amounts reported on the Statement of Changes in Net Position are as follows for September 30, 2011 and 2010:

Type of Transfer/Funds	FY 2011		FY 2010	
	Earmark	Other Funds	Earmark	Other Funds
Transfers-in by allocation transfer agency	\$	\$	\$	\$ -
Transfers-in property	(1)	180	-	341
Transfers (out) of prior year negative subsidy to be paid following year		(256)	-	205
Total Transfer in (out) without Reimbursement, Budgetary	<u>\$ (1)</u>	<u>\$ (76)</u>	<u>\$</u>	<u>\$ 546</u>

Note 32. Imputed Financing

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2011 were \$164.4 million (\$25.8 million from Earmarked Funds, and \$138.6 million from Other Funds). For FY 2010, the estimates were \$146.8 million (\$23.7 million from Earmarked Funds, and \$123.1 million from Other Funds).

SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts" and SFFAS No. 30, "Inter-Entity Cost Implementation," requires federal agencies to recognize the costs of goods and services received from other federal entities that are not fully reimbursed, if material. The EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these

unreimbursed costs subject to materiality. The EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2011 total imputed costs were \$11.6 million (\$3.9 million from Earmarked funds, and \$7.7 million from Other Funds).

In addition to the pension and retirement benefits described above, the EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2011, entries for Judgment Fund payments totaled \$2.6 million (Other Funds). For FY 2010, entries for Judgment Fund payments totaled \$4.0 million (Other Funds).

The combined total of imputed financing sources for FY 2011 and FY 2010 is \$178.6 million and \$161.6 million, respectively.

Note 33. Payroll and Benefits Payable

Payroll and benefits payable to the EPA employees for the years ending September 30, 2011 and 2010 consist of the following:

FY 2011 Payroll & Benefits Payable	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accrued Funded Payroll & Benefits \$	73,432\$	-\$	73,432
Withholdings Payable	32,050	-	32,050
Employer Contributions Payable-TSP	4,008	-	4,008
Accrued Unfunded Annual Leave	-	162,845	162,845
Total - Current	\$ 109,490\$	162,845\$	272,335

FY 2010 Payroll & Benefits Payable			
Accrued Funded Payroll and Benefits \$	66,677	\$ -	\$ 66,677
Withholdings Payable	31,298	-	31,298
Employer Contributions Payable-TSP	3,588	-	3,588
Accrued Unfunded Annual Leave	-	163,412	163,412
Total - Current	\$ 101,563	\$ 163,412\$	264,975

Note 34. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired five years earlier. These amounts affect Unexpended Appropriations.

	Other Funds FY 2011	Other Funds FY 2010
Rescissions to General Appropriations	\$ 157,208	\$ 50,623
Canceled General Authority	19,978	15,366
Total Other Adjustments	\$ 177,186	\$ 65,989

Note 35. Non-exchange Revenue, Statement of Changes in Net Position

Non-exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2011 and 2010 consists of the following items:

	Earmarked Funds FY 2011	Earmarked Funds FY 2010
Interest on Trust Fund	\$ 120,429	\$ 130,504
Tax Revenue, Net of Refunds	152,437	172,127
Fines and Penalties Revenue	3,286	261
Special Receipt Fund Revenue	29,261	41,596
Total Nonexchange Revenue	\$ 305,413	\$ 344,488

Note 36. Reconciliation of Net Cost of Operations to Budget

	<u>FY 2011</u>	<u>FY 2010</u>
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$ 11,990,577	\$ 11,950,681
Less: Spending Authority from Offsetting Collections and Recoveries	(1,020,941)	(1,333,690)
Obligations, Net of Offsetting Collections	\$ 10,969,636	\$ 10,616,991
Less: Offsetting Receipts	(1,282,958)	(1,375,422)
Net Obligations	\$ 9,686,678	\$ 9,241,569
Other Resources		
Donations of Property	\$ 50	\$
Transfers In/Out without Reimbursement, Property	(178)	(341)
Imputed Financing Sources	178,654	161,640
Net Other Resources Used to Finance Activities	\$ 178,526	\$ 161,299
Total Resources Used to Finance Activities	\$ 9,865,204	\$ 9,402,868
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF		
Change in Budgetary Resources Obligated	\$ 1,031,615	\$ 2,166,944
Resources that Fund Prior Periods Expenses	-	-
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections Increasing Loan Liabilities for Guarantees or Subsidy Allowances	2,759	5,681
Offsetting Receipts Not Affecting Net Cost	126,885	94,852
Resources that Finance Asset Acquisition	(190,101)	(213,953)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 971,158	\$ 2,053,524
Total Resources Used to Finance the Net Cost of Operations	\$ 10,836,362	\$ 11,456,392
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:	<u>FY 2011</u>	<u>FY 2010</u>
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	\$ (823)	\$ 4,232
Increase in Environmental and Disposal Liability	484	630
Increase in Unfunded Contingencies	5,807	(200)
Upward/ Downward Reestimates of Credit Subsidy Expense	394	(207)
Increase in Public Exchange Revenue Receivables	(231,519)	7,375
Increase in Workers Compensation Costs	(221)	979
Other	1,563	(3,077)
Total Components of Net Cost of Operations that Require or Generate Resources in Future Periods	\$ (224,315)	\$ 9,732
Components Not Requiring/ Generating Resources:		
Depreciation and Amortization	73,640	85,741
Expenses Not Requiring Budgetary Resources	193,206	160,916
Total Components of Net Cost that Will Not Require or Generate Resources	\$ 266,846	\$ 246,657
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	\$ 42,531	\$ 256,389
Net Cost of Operations	<u>\$ 10,878,893</u>	<u>\$ 11,712,781</u>

Note 37. Amounts Held by Treasury (Unaudited)

Amounts held by Treasury for future appropriations consist of amounts held in trusteeship by Treasury in the Superfund and LUST Trust Funds.

Superfund

Superfund is supported by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, and fines and penalties.

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2011 and 2010. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by the EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2011	The EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 15,000	\$ 15,000
Total Undisbursed Balance	-	15,000	15,000
Interest Receivable	-	4,361,927	4,361,927
Investments, Net	3,368,753,717	204,029,927	3,572,783,644
Total Assets	\$ 3,368,753,717	\$ 208,406,854	\$ 3,577,160,571
Liabilities & Equity			
Equity	\$ 3,368,753,717	\$ 208,406,854	\$ 3,577,160,571
Total Liabilities and Equity	\$ 3,368,753,717	\$ 208,406,854	\$ 3,577,160,571
Receipts			
Corporate Environmental	-	310,125	310,125
Cost Recoveries	-	97,623,116	97,623,116
Fines & Penalties	-	1,755,095	1,755,095
Total Revenue	-	99,688,336	99,688,336
Appropriations Received	-	1,156,073,340	1,156,073,340
Interest Income	-	27,266,038	27,266,038
Total Receipts	\$ -	\$ 1,283,027,714	\$ 1,283,027,714
Outlays			
Transfers to/from EPA, Net	\$ 1,292,883,474	\$ (1,292,883,474)	-
Total Outlays	1,292,883,474	(1,292,883,474)	-
Net Income	\$ 1,292,883,474	\$ (9,855,760)	\$ 1,283,027,714

In FY 2011, the EPA received an appropriation of \$1.16 billion for Superfund. Treasury's Bureau of Public Debt, the manager of the Superfund Trust Fund assets, records a liability to the EPA for the amount of the appropriation; BPD does so to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2011 and 2010, the Treasury Trust Fund has a liability to the EPA for previously appropriated funds of \$3.37 billion and \$3.53 billion, respectively.

SUPERFUND FY 2010	The EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 4,234,294	\$ 4,234,294
Total Undisbursed Balance	-	4,234,294	4,234,294
Interest Receivable	-	4,442,724	4,442,724
Investments, Net	3,526,671,825	209,585,595	3,736,257,420
Total Assets	\$ 3,526,671,825	\$ 218,262,613	\$ 3,744,934,438
Liabilities & Equity			
Receipts and Outlays	-	-	-
Equity	\$ 3,526,671,825	\$ 218,262,613	\$ 3,744,934,438
Total Liabilities and Equity	\$ 3,526,671,825	\$ 218,262,613	\$ 3,744,934,438
Receipts			
Corporate Environmental	-	3,137,141	3,137,141
Cost Recoveries	-	53,246,618	53,246,618
Fines & Penalties	-	3,451,837	3,451,837
Total Revenue	-	59,835,596	59,835,596
Appropriations Received	-	1,280,570,288	1,280,570,288
Interest Income	-	14,967,685	14,967,685
Total Receipts	\$ -	\$ 1,355,373,569	\$ 1,355,373,569
Outlays			
Transfers to/from EPA, Net	\$ 1,308,704,084	\$ (1,308,704,084)	-
Total Outlays	1,308,704,084	(1,308,704,084)	-
Net Income	\$ 1,308,704,084	\$ 46,669,485	\$ 1,355,373,569

LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2011 and 2010, there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by the EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2011	The EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	\$ -	\$ 1,295,063	\$ 1,295,063
Total Undisbursed Balance	-	1,295,063	1,295,063
Interest Receivable	-	11,252,175	11,252,175
Investments, Net	-	3,523,799,673	3,523,799,673
Total Assets	\$ -	\$ 3,536,346,911	\$ 3,536,346,911
Liabilities & Equity			
Equity	\$ -	\$ 3,536,346,911	\$ 3,536,346,911
Receipts			
Highway TF Tax	\$	\$ 141,300,963	\$ 141,300,963
Airport TF Tax	-	10,750,770	10,750,770
Inland TF Tax	-	75,023	75,023
Total Revenue	-	152,126,756	152,126,756
Interest Income	-	93,156,165	93,156,165
Total Receipts	\$ -	\$ 245,282,921	\$ 245,282,921
Outlays			
Transfers to/from EPA, Net	\$ 112,874,798	\$ (112,874,798)	-
Total Outlays	112,874,798	(112,874,798)	-
Net Income	\$ 112,874,798	\$ 132,408,123	\$ 245,282,921

LUST FY 2010		The EPA	Treasury	Combined
Undistributed Balances				
Uninvested Fund Balance	\$	-	\$ (5,349,000)	\$ (5,349,000)
Total Undisbursed Balance		-	(5,349,000)	(5,349,000)
Interest Receivable		-	20,815,275	20,815,275
Investments, Net		210,146,189	3,271,951,525	3,482,097,714
Total Assets	\$	210,146,189	\$ 3,287,417,800	\$ 3,497,563,989
Liabilities & Equity				
Equity	\$	210,146,189	\$ 3,287,417,800	\$ 3,497,563,989
Receipts				
Highway TF Tax	\$	-	\$ 158,254,000	\$ 158,254,000
Airport TF Tax		-	10,685,000	10,685,000
Inland TF Tax		-	51,000	51,000
Total Revenue		-	168,990,000	168,990,000
Interest Income		-	115,523,147	115,523,147
Total Receipts	\$	-	\$ 284,513,147	\$ 284,513,147
Outlays				
Transfers to/from EPA, Net	\$	103,901,000	\$ (103,901,000)	\$ -
Total Outlays		103,901,000	(103,901,000)	-
Net Income	\$	103,901,000	\$ 180,612,147	\$ 284,513,147

Note 38. Antideficiency Act Violations

During FY 2004, the EPA awarded a contract in the amount of \$193,545 for the analysis of drinking-water samples. The funding was available for FY 2004 and FY 2005. However, the contract performance period crossed three fiscal years, FY 2004, FY 2005 and FY 2006. As a result, the obligation of funds went beyond the appropriation resulting in an Antideficiency Act violation. On July 14, 2010 the EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the 1) President, 2) President of the Senate, 3) Speaker of the House of Representatives, 4) Comptroller General and 5) the Director of OMB.

The EPA experienced an Antideficiency Act violation in November 2010 when EPA made an expenditure in excess of the funds available in the Inland Oil Spill Program account due to an inadvertent reporting error in monitoring the cash flow. The required notification letters are awaiting OMB clearance.

Required Supplementary Information (Unaudited)
Environmental Protection Agency
As of September 30, 2011
(Dollars in Thousands)

1. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping PP&E in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended.

The EPA classifies tangible property, plant and equipment as follows: 1) EPA-Held Equipment, 2) Contractor-Held Equipment, 3) Land and Buildings and 4) Capital Leases. The EPA utilizes the condition assessment survey method of measuring deferred maintenance. The agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

2. Stewardship Land

Stewardship land is acquired as contaminated sites in need of remediation and cleanup; thus, the quality of the land is far below the standard for usable and manageable land. Easements on stewardship lands are in good and usable condition but acquired in order to gain access to contaminated sites.

Required Supplementary Information (Unaudited)
Environmental Protection Agency
As of September 30, 2011
(Dollars in Thousands)

3. Supplemental Combined Statement of Budgetary Resources
For the Period Ending September 30, 2011

BUDGETARY RESOURCES	EPM	FIFRA	LUST	S&T	STAG	OTHER	TOTAL
Unobligated Balance Brought Forward, October 1	\$ 481,430	\$ 1,776	\$ 7,163	\$ 253,199	\$ 1,717,294	\$ 2,165,479	\$ 4,626,341
Recoveries of prior year unpaid obligations	18,183		6,633	6,047	67,859	171,942	270,664
Budgetary Authority:							
Appropriation	2,761,994			815,110	3,766,446	1,305,266	8,648,816
Borrowing Authority							0
Spending Authority from Offsetting Collections:							
Collected	41,297	20,927	51	7,113	7,285	563,450	640,123
Change in receivables from Federal sources	(2,668)			734		13,115	11,181
Advance received	20,988	1,777	(10)	(1,039)		57,664	79,380
Without advance from Federal sources	(30,898)			2,423		12,658	(15,817)
Expenditure Transfers from trust funds				25,484		9,926	35,410
Nonexpenditure transfers, net anticipated and actual	1,750		113,101			1,257,724	1,372,575
Temporarily not available pursuant to Public Law			(226)			(327)	(553)
Permanently not available	(16,061)			(10,687)	(147,532)	(5,413)	(179,693)
Total Budgetary Resources	\$ 3,276,015	\$ 24,480	\$ 126,712	\$ 1,098,384	\$ 5,411,352	\$ 5,551,484	\$ 15,488,427
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	\$ 2,916,254	\$	\$ 118,878	\$ 905,157	\$ 4,552,822	\$ 2,739,219	\$ 11,232,330
Reimbursable	65,946	22,339		4,913		665,049	758,247
Total Obligations Incurred	2,982,200	22,339	118,878	910,070	4,552,822	3,404,268	11,990,577
Unobligated Balances:							
Unobligated funds apportioned	174,028	2,141	4,345	150,025	855,714	2,140,559	3,326,812
Unobligated balance not available	119,787		3,489	38,289	2,816	6,657	171,038
Total Status of Budgetary Resources	\$ 3,276,015	\$ 24,480	\$ 126,712	\$ 1,098,384	\$ 5,411,352	\$ 5,551,484	\$ 15,488,427
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid obligations brought forward, October 1	\$ 1,218,961	\$ 2,427	\$ 263,464	\$ 411,565	\$ 10,081,435	\$ 1,895,057	\$ 13,872,909
Less: Uncollected customer payments from Federal sources brought forward, October 1	(156,949)			(35,065)		(247,942)	(439,956)
Total unpaid obligation balance, net	1,062,012	2,427	263,464	376,500	10,081,435	1,647,115	13,432,953
Obligations incurred net	2,982,200	22,339	118,878	910,070	4,552,822	3,404,268	11,990,577
Less: Gross outlays	(2,776,330)	(23,337)	(207,759)	(893,623)	(5,555,301)	(3,361,578)	(12,817,928)
Less: Recoveries of prior year unpaid obligations, actual	(18,183)		(6,633)	(6,047)	(67,859)	(171,942)	(270,664)
Change in uncollected customer payments from Federal sources	33,565			(3,717)		(28,320)	1,528
Total	\$ 1,283,264	\$ 1,429	\$ 167,950	\$ 383,183	\$ 9,011,098	\$ 1,489,539	\$ 12,336,466
Obligated Balance, net, end of period:							
Unpaid obligations	1,406,648	1,430	167,950	421,966	9,011,098	1,765,802	12,774,894
Less: Uncollected customer payments from Federal sources	(123,384)			(38,781)		(276,263)	(438,428)
Total, unpaid obligated balance, net, end of period	\$ 1,283,264	\$ 1,430	\$ 167,950	\$ 383,185	\$ 9,011,098	\$ 1,489,539	\$ 12,336,466
NET OUTLAYS							
Gross outlays	\$ 2,776,330	\$ 23,337	\$ 207,759	\$ 893,523	\$ 5,555,301	\$ 3,361,578	\$ 12,817,828
Less: Offsetting collections	(62,285)	(22,704)	(41)	(30,998)	(7,285)	(628,492)	(751,805)
Less: Distributed Offsetting Receipts						(1,291,761)	(1,291,761)
Total, Net Outlays	\$ 2,714,045	\$ 633	\$ 207,718	\$ 862,525	\$ 5,548,016	\$ 1,441,325	\$ 10,774,262

**Environmental Protection Agency
Required Supplemental Stewardship Information
For the Year Ended September 30, 2011
(Dollars in Thousands)**

INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:

The EPA's Office of Research and Development provides the crucial underpinnings for the EPA decision-making by conducting cutting-edge science and technical analysis to develop sustainable solutions to our environmental problems and more innovative and effective approaches to reducing environmental risks. The EPA is unique among scientific institutions in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across the risk assessment and risk management paradigm. Research enables the EPA to identify the most important sources of risk to human health and the environment and by so doing, informs the agency's priority-setting, ensures credibility for its policies and guides its deployment of resources.

Among the agency's highest priorities are research programs that address the development of alternative techniques for prioritizing chemicals for further testing through computational toxicology; the environmental effects on children's health; the potential risks and effects of manufactured nanomaterials on human health and the environment; the impacts of global change and providing information to policy makers to help them adapt to a changing climate; the potential risks of unregulated contaminants in drinking water; the development of recreational water quality criteria; the health effects of air pollutants such as particulate matter; the protection of the nation's ecosystems; and the provision of near-term, appropriate, affordable, reliable, tested, and effective technologies and guidance for potential threats to homeland security. The EPA also supports regulatory decision-making with chemical risk assessments.

For FY 2011, the full cost of the agency's Research and Development activities totaled over \$678 million. A breakout of the expenses is as follows (dollars in thousands):

	<u>FY 2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
Programmatic Expenses	\$624,088	\$597,080	\$600,552	\$590,790	\$597,558
Allocated Expenses	\$100,553	\$103,773	\$119,630	\$71,958	\$80,730

Each of the EPA's strategic goals has a Science and Research Objective.

INVESTMENT IN THE NATION'S INFRASTRUCTURE:

The agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program which is being phased out and two State Revolving Fund programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations collection and intercept sewers, rehabilitation of sewer systems and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, the EPA shifted the focus of municipal financial assistance from grants to loans that are provided by SRFs.

SRFs: The EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the SRF, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the federal government.

The agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds. These are reported below as Other Infrastructure Grants.

The agency's investments in the nation's Water Infrastructure are outlined below (dollars in thousands):

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Construction Grants	\$9,975	\$11,517	\$30,950	\$18,186	\$35,339
Clean Water SRF	\$1,399,616	\$1,063,825	\$836,502	\$2,966,479	\$2,299,721
Safe Drinking Water SRF	\$962,903	\$816,038	\$906,803	\$1,938,296	\$1,454,274
Other Infrastructure Grants	\$381,481	\$388,555	\$306,366	\$264,227	\$269,699
Allocated Expenses	\$443,716	\$396,253	\$414,460	\$631,799	\$548,375

HUMAN CAPITAL

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the agency's programs and are effective in achieving the agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

The agency's expenses related to investments in Human Capital are outlined below (dollars in thousands):

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Training and Awareness Grants	\$32,845	\$30,768	\$37,981	\$25,714	\$23,386
Fellowships	\$12,185	\$9,650	\$6,818	\$6,905	\$9,538
Allocated Expenses	\$7,255	\$7,025	\$8,924	\$3,973	\$4,448

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Balance Sheet for Superfund Trust Fund
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)
(Unaudited)

	<u>FY 2011</u>	<u>FY 2010</u>
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note S1)	\$ 114,540	\$ 106,247
Investments	3,577,146	3,740,700
Accounts Receivable, Net	10,560	27,323
Other	8,076	12,941
Total Intragovernmental	\$ 3,710,322	\$ 3,887,211
Accounts Receivable, Net	454,606	364,065
Property, Plant & Equipment, Net	109,272	101,714
Other	1,006	1,075
Total Assets	\$ 4,275,206	\$ 4,354,065
LIABILITIES		
Intragovernmental:		
Accounts Payable and Accrued Liabilities	53,778	45,641
Other	61,080	62,260
Total Intragovernmental	\$ 114,858	\$ 107,901
Accounts Payable & Accrued Liabilities	\$ 141,464	\$ 178,045
Pensions & Other Actuarial Liabilities	7,778	6,420
Cashout Advances, Superfund (Note S2)	790,069	636,673
Payroll & Benefits Payable	47,174	45,792
Other	30,244	38,736
Total Liabilities	\$ 1,131,587	\$ 1,013,567
NET POSITION		
Cumulative Results of Operations	3,143,619	3,340,498
Total Net Position	3,143,619	3,340,498
Total Liabilities and Net Position	\$ 4,275,206	\$ 4,354,065

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Net Cost for Superfund Trust Fund
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)
(Unaudited)

	<u>FY 2011</u>	<u>FY 2010</u>
COSTS		
Gross Costs	\$ 1,908,317	\$ 1,844,712
Expenses from Other Appropriations	71,457	30,349
Total Costs	1,979,774	1,875,061
Less:		
Earned Revenue	<u>532,006</u>	<u>484,165</u>
NET COST OF OPERATIONS	\$ <u>1,447,768</u>	\$ <u>1,390,896</u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Changes in Net Position for Superfund Trust Fund
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)
(Unaudited)

		FY 2011	FY 2010
		Earmarked	Earmarked
		Funds	Funds
Cumulative Results of Operations:			
Net Position - Beginning of Period		<u>3,340,498</u>	<u>3,416,536</u>
Beginning Balances, as Adjusted	\$	3,340,498	\$ 3,416,536
Budgetary Financing Sources:			
Nonexchange Revenue - Securities Investment		27,266	14,968
Nonexchange Revenue - Other		3,596	3,396
Transfers In/Out		(35,410)	(39,168)
Trust Fund Appropriations		1,156,073	1,280,570
Income from Other Appropriations		<u>71,457</u>	<u>30,349</u>
Total Budgetary Financing Sources	\$	1,222,982	\$ 1,290,115
Other Financing Sources (Non-Exchange)			
Transfers In/Out		1	-
Imputed Financing Sources		<u>27,906</u>	<u>24,743</u>
Total Other Financing Sources	\$	27,907	\$ 24,743
Net Cost of Operations		(1,447,768)	(1,390,896)
Net Change		(196,879)	(76,038)
Cumulative Results of Operations	\$	<u><u>3,143,619</u></u>	<u><u>3,340,498</u></u>

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Budgetary Resources for Superfund Trust Fund
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)
(Unaudited)

	<u>FY 2011</u>	<u>FY 2010</u>
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1:	\$ 2,059,687	\$ 1,605,363
Adjusted Subtotal	2,059,687	1,605,363
Recoveries of Prior Year Unpaid Obligations	154,843	171,423
Budgetary Authority:		
Appropriation	35,410	36,809
Spending Authority from Offsetting Collections		
Earned:		
Collected	313,039	518,936
Change in Receivables from Federal Sources	2,864	47
Change in Unfilled Customer Orders:		
Advance Received	63,378	244,146
Without Advance from Federal Sources	(3,828)	4,423
Total Spending Authority from Offsetting Collections	375,453	767,552
Nonexpenditure Transfers, Net, Anticipated and Actual	1,257,724	1,273,244
Temporarily Not Available Pursuant to Public Law	(250)	(2,600)
Permanently Not Available	-	(4,102)
Total Budgetary Resources	\$ 3,882,867	\$ 3,847,690
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 1,450,802	\$ 1,475,861
Reimbursable	396,582	312,141
Total Obligations Incurred	1,847,384	1,788,002
Unobligated Balances:		
Apportioned	2,033,533	2,058,813
Total Unobligated Balances	2,033,533	2,058,813
Unobligated Balances Not Available	1,950	874
Total Status of Budgetary Resources (Note S6)	\$ 3,882,867	\$ 3,847,690

The accompanying notes are an integral part of these financial statements.

Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Statement of Budgetary Resources for Superfund Trust Fund
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)
(Unaudited)

	<u>FY 2011</u>	<u>FY 2010</u>
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	\$ 1,692,915	\$ 1,861,908
Adjusted Total	1,692,915	1,861,908
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(123,366)	(118,896)
Total Unpaid Obligated Balance, Net	1,569,549	1,743,012
Obligations Incurred, Net	1,847,384	1,788,002
Less: Gross Outlays	(1,814,706)	(1,785,572)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(154,843)	(171,423)
Change in Uncollected Customer Payments from Federal Sources	963	(4,471)
Total, Change in Obligated Balance	1,448,347	1,569,549
 Obligated Balance, Net, End of Period:		
Unpaid Obligations	1,570,749	1,692,915
Less: Uncollected Customer Payments from Federal Sources	(122,402)	(123,366)
Total, Unpaid Obligated Balance, Net, End of Period	\$ 1,448,347	\$ 1,569,549
 NET OUTLAYS		
Net Outlays:		
Gross Outlays (Note S6)	\$ 1,814,706	\$ 1,785,572
Less: Offsetting Collections (Note S6)	(376,417)	(763,081)
Less: Distributed Offsetting Receipts* (Note S6)	(97,623)	(53,247)
Total, Net Outlays	\$ 1,340,666	\$ 969,244

Offsetting receipts line includes the amount in 68X0250 (payment to trust fund) from Treasury

The payment cannot be made directly through the trust fund, but must go through a "pass-through" fund

The accompanying notes are an integral part of these financial statements.

**Environmental Protection Agency
Supplemental Information and Other Reporting Requirements
Related Notes to Superfund Trust Financial Statements
For the Periods Ending September 30, 2011 and 2010
(Dollars in Thousands)
(Unaudited)**

Note S1. Fund Balance with Treasury for Superfund Trust

Fund Balance with Treasury for the Superfund as of September 30, 2011 and 2010 is \$114.5 million and \$106.2 million, respectively. Fund balances are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below).

Status of Fund Balances:	<u>FY 2011</u>	<u>FY 2010</u>
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 2,033,533	\$ 2,058,813
Unavailable for Obligation	1,951	874
Net Receivables from Invested Balances	(3,368,754)	(3,526,672)
Balances in Treasury Trust Fund	15	(1,115)
Obligated Balance not yet Disbursed	<u>1,447,795</u>	<u>1,574,347</u>
Totals	\$ <u>114,540</u>	\$ <u>106,247</u>

OMB may apportion the funds available for obligation for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations.

Note S2. Cashout Advances, Superfund

Cashout Advances are funds received by the EPA, a state or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by the EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other federal agencies to conduct or finance response actions in lieu of the EPA without further appropriation by Congress. As of September 30, 2011 and 2010, cashout advances are \$790 million and \$637 million, respectively.

Note S3. Superfund State Credits

Authorizing statutory language for Superfund and related federal regulations require states to enter into SSCs when the EPA assumes the lead for a RA in their state. The SSC defines the state's role in the RA and obtains the state's assurance that they will share in the cost of the RA. Under Superfund's authorizing statutory language, states will provide the EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, RA and enforcement) at publicly operated sites. In some cases, states may use the EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. Credit is limited to state site-specific expenses the EPA

has determined to be reasonable, documented, direct out-of-pocket expenditures of non-federal funds for remedial action.

Once the EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by the EPA. As of September 30, 2011, the total remaining state credits have been estimated at \$22.2 million. The estimated ending credit balance on September 30, 2010 was \$20.9 million.

Note S4. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that the EPA will reimburse them a certain percentage of their total response action costs. The EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2011, the EPA had four outstanding preauthorized mixed funding agreements with obligations totaling \$11.5 million. As of September 30, 2010, the EPA had six outstanding preauthorized mixed funding agreements with obligations totaling \$15.6 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by the EPA for payment. Further, the EPA will not disburse any funds under these agreements until the PRP's application, claim and claims adjustment processes have been reviewed and approved by the EPA.

Note S5. Income and Expenses from other Appropriations; General Support Services Charged to Superfund

The Statement of Net Cost reports costs that represent the full costs of the program outputs. These costs consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis or reasonably allocated to program outputs.

During FY 2011 and FY 2010, the EPM appropriation funded a variety of programmatic and non-programmatic activities across the agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

	FY 2011			FY 2010		
	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
Superfund	\$ 69,754	(69,754)	\$ -	\$ 30,349	(30,349)	\$ -
All Others	(69,754)	69,754	-	(30,349)	30,349	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are \$48,000 for FY 2011 and \$194,000 for FY 2010.

Note S6. Reconciliation of the Statement of Budgetary Resources to the President's Budget

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2010 Statement of Budgetary Resources, will be reconciled to the amounts included in the Budget of the United States government when they become available. The Budget of the United States government with actual numbers for FY 2011 has not yet been published. The EPA expects it will be published by March 2012, and it will be available on the OMB website at <http://www.whitehouse.gov/omb>. The actual amounts published for the year ended September 30, 2010 are included in the EPA's FY 2010 financial statement disclosures.

FY 2010	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 3,847,690	\$ 1,788,002	\$ 53,247	\$ 1,022,491
Rounding Differences**	(690)	(2)	-	509
Reported in Budget of the U. S. Government	<u>\$ 3,847,000</u>	<u>\$ 1,788,000</u>	<u>\$ 53,247</u>	<u>\$ 1,023,000</u>

** Balances are rounded to millions in the Budget Appendix.

Note S7. Superfund Eliminations

The Superfund Trust Fund has intra-agency activities with other the EPA funds that are eliminated on the consolidated Balance Sheet and the Statement of Net Cost. These are listed below:

	<u>FY 2011</u>	<u>FY 2010</u>
Advances	\$5,506	\$9,265
Expenditure Transfers Payable	\$28,663	\$25,555
Accrued Liabilities	\$950	\$2,214
Expenses	\$25,337	\$33,419
Transfers	\$35,410	\$38,016



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements

Report No. 12-1-0073

November 15, 2011

Abbreviations

ALJ	Administrative Law Judges
BFY	Budget fiscal year
CFC	Cincinnati Finance Center
EAB	Environmental Appeals Board
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAO	U.S. Government Accountability Office
HR Fund	Oil Spill Reimbursable Fund
IFMS	Integrated Financial Management System
LEO	Legal Enforcement Office
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORC	Office of Regional Counsel
RMDS	Resource Management Directive System
RPO	Regional program office
RSSI	Required Supplementary Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards
USCG	U.S. Coast Guard

Hotline

To report fraud, waste, or abuse, contact us through one of the following methods:

e-mail: OIG_Hotline@epa.gov
phone: 1-888-546-8740
fax: 202-566-2599
online: <http://www.epa.gov/oig/hotline.htm>

write: EPA Inspector General Hotline
1200 Pennsylvania Avenue NW
Mailcode 2431T
Washington, DC 20460



At a Glance

Why We Did This Audit

We performed this audit in accordance with the Government Management Reform Act, which requires the U.S. Environmental Protection Agency (EPA) to prepare, and the Office of Inspector General to audit, the Agency's financial statements each year. Our primary objectives were to determine whether:

- EPA's consolidated financial statements were fairly stated in all material respects.
- EPA's internal controls over financial reporting were in place.
- EPA management complied with applicable laws and regulations.

Background

The requirement for audited financial statements was enacted to help bring about improvements in agencies' financial management practices, systems, and controls so that timely, reliable information is available for managing federal programs.

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2012/20111115-12-1-0073.pdf

Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements

EPA Receives an Unqualified Opinion

We rendered an unqualified opinion on EPA's Consolidated Financial Statements for fiscal 2011 and 2010, meaning that they were fairly presented and free of material misstatement.

Internal Control Significant Deficiencies Noted

We noted the following significant deficiencies:

- Regions and headquarters did not timely provide accounts receivable supporting documentation.
- EPA did not timely bill other federal agencies for reimbursable costs.
- EPA did not properly close general ledger accounts in its cancelling Treasury symbols.
- EPA double counted contractor-held property.
- EPA headquarters could not account for 1,284 personal property items.
- EPA needs to better secure marketable securities.
- EPA recorded earned revenue without recognizing corresponding expenses.
- EPA is withholding payments related to the BP Deepwater Horizon oil spill.

Noncompliance With Laws and Regulations Noted

We noted a noncompliance issue involving EPA's Oil Spill Response Account in relation to the BP Deepwater Horizon oil spill response. EPA violated the Antideficiency Act in November 2010 because it made expenditures in excess of funds available. Also, to avoid a second potential Antideficiency Act violation, EPA delayed payments to vendors, resulting in the Agency being required to make interest penalty payments to vendors as required by the Prompt Payment Act.

Agency Comments and Office of Inspector General Evaluation

The Agency did not concur with our finding regarding cancelling Treasury symbols causing inappropriate balances. The Agency believes that it is following Treasury instructions and the balances are proper. While the amounts are not material to the financial statements, by reversing the receivable, the Agency has understated fiscal 2011 income and bad debt expense related to cancelling the Treasury symbol. The Agency agreed with our other findings and recommendations.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

November 15, 2011

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements
Report No. 12-I-0073

FROM: Arthur A. Elkins, Jr.
Inspector General

A handwritten signature in black ink, appearing to read "Arthur A. Elkins, Jr.", is placed to the right of the "FROM:" line.

TO: Lisa P. Jackson
Administrator

Barbara J. Bennett
Chief Financial Officer

Craig E. Hooks
Assistant Administrator for Administration and Resources Management

Cynthia Giles
Assistant Administrator for Enforcement and Compliance Assurance

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2011 and 2010 consolidated financial statements. We are reporting eight significant deficiencies. We also identified an instance of noncompliance with laws and regulations related to an Antideficiency Act violation in the Oil Spill Response Account. Attachment 3 contains the status of recommendations related to the material weaknesses, significant deficiencies, and noncompliances with laws and regulations reported in prior years' reports. The significant deficiencies and noncompliances included in attachment 3 also apply for fiscal 2011.

This audit report represents the opinion of the Office of Inspector General, and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice. We have no

objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days of the final report date. The response should address all issues and recommendations contained in attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding whether to close this report in our audit tracking system. Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal.

Should you or your staff have any questions about the report, please contact Melissa Heist, Assistant Inspector General for Audit, at (202) 566-0899; or Paul Curtis, Director, Financial Statement Audits, at (202) 566-2523.

Attachments

cc: See appendix III, Distribution

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Inspector General's Report on EPA's Fiscal 2011 and 2010 Consolidated Financial Statements

The Administrator
U.S. Environmental Protection Agency

We have audited the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA) as of September 30, 2011, and September 30, 2010, and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; and the combined statement of budgetary resources for the years then ended. These financial statements are the responsibility of EPA management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expenses of grantees, contractors, and other federal agencies. Our audit work pertaining to these expenses included testing only within EPA. The U.S. Treasury collects and accounts for excise taxes that are deposited into the Leaking Underground Storage Tank Trust Fund. The U.S. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the U.S. Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to OIG operations that are presented in the financial statements. The amounts included for the OIG are not material to EPA's financial statements. The OIG is organizationally independent with respect to all other aspects of the Agency's activities.

In our opinion, the consolidated financial statements, including the accompanying notes, present fairly, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by goal, changes in net position, custodial activity, and combined budgetary resources of EPA as of and for the years ended September 30, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

Review of EPA's Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis

We obtained information from EPA management about its methods for preparing Required Supplementary Stewardship Information (RSSI), Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements. The Supplemental Information includes the unaudited Superfund Trust Fund financial statements for fiscal 2011 and 2010, which are being presented for additional analysis and are not a required part of the basic financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

We did not identify any material inconsistencies between the information presented in EPA's consolidated financial statements and the information presented in EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

Evaluation of Internal Controls

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel, that is designed to provide reasonable assurance that the following objectives are met:

Reliability of financial reporting—Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

Compliance with applicable laws, regulations, and government-wide policies—Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB, and other laws and regulations that could have a direct and material effect on the financial statements.

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. We did not test all internal

controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely manner. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, none of which are considered to be material weaknesses. These significant deficiencies are summarized below and detailed in attachment 1.

Accounts Receivable Source Documentation Not Provided Timely

EPA regional and headquarters offices did not timely submit supporting documentation to the Cincinnati Finance Center (CFC) so that CFC could promptly record accounts receivable in the financial system. EPA policies state that within 5 business days of determining a debt is owed to the Agency, the responsible office must forward source documents to CFC. Regional program office (RPO), Office of Regional Counsel (ORC), the Environmental Appeals Board (EAB), Office of Administrative Law Judges (ALJ), Office of Enforcement and Compliance Assurance (OECA) staff, and regional Legal Enforcement Office (LEO) staff are responsible for providing this documentation. CFC stated that offices may have been unaware of the 5-day policy, or may have simply forgotten to send the documentation. When CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and EPA may not collect all that it is owed. Further, EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

Federal Reimbursable Costs Not Billed Timely

EPA did not timely bill other federal agencies for \$2,210,617 of reimbursable costs. We found costs that had not been billed for up to 9 years. In addition, \$3,150,692 and \$521,589 of reimbursable expenses were recorded in funds cancelled in fiscal 2010 and 2011, respectively. Reimbursable costs were not timely billed to other federal agencies because EPA had difficulty reconciling costs previously incurred to costs previously billed under individual reimbursable agreements. Untimely billing of reimbursable costs causes delays in replenishing funds spent on reimbursable agreements. Also, untimely billing may result in EPA losing the ability to obligate and/or spend funds due to the expiration and subsequent cancellation of funds before they are collected. For example, we identified \$3.7 million of reimbursable expenses due from other agencies in fiscal 2010 and 2011 in cancelled funds. Since the funds are now cancelled, if EPA does bill

such amounts, the collections must be returned to Treasury and will not be available to EPA.

EPA's Process for Cancelling Treasury Symbols Caused Inappropriate Account Balances

EPA did not properly close general ledger accounts in its cancelling Treasury symbols. We identified two instances in which EPA inappropriately recorded general ledger entries to close accounts when it cancelled Treasury symbols. *Treasury Financial Manual Bulletin No. 2011-07*, Section 21, states that agencies must cancel any remaining balances (whether obligated or unobligated) in a closed appropriation account being cancelled and report valid receivable and payable balances associated with a cancelled Treasury Appropriation Fund Symbol. Because EPA did not review the net impact to current Treasury funds, EPA's improper cancellation procedures resulted in various misstated general ledger accounts. Consequently, the financial statements were misstated, although the misstatements were not material to the financial statements as a whole.

EPA Double Counted Contractor-Held Property

EPA double counted 97 items of capitalized property in its financial system because it did not remove property from its financial system that had been transferred to contractors. As a result, these items were recorded as both EPA-held property and contractor-held property. The double-counted property had an acquisition cost of \$12.3 million and a net book value of \$5 million. EPA property guidance states that when contractors are furnished with government property, the property is deleted from the financial system. The contractor-held property items were not removed because EPA does not have a policy that states who is responsible for removing contractor-held property from EPA's financial system. Without clear policies, neither the Office of the Chief Financial Officer (OCFO) nor the Office of Administration and Resources Management (OARM) has taken responsibility to ensure that EPA property transferred to contractors is deleted from EPA's financial system. The double counting resulted in capitalized property being overstated by \$5 million in fiscal 2011.

EPA Headquarters Cannot Account for 1,284 Property Items

EPA headquarters could not account for 1,284 personal property items in fiscal 2011 as required by EPA's *Personal Property and Procedures Manual*. Headquarters mid-level management was not knowledgeable about Agency property management procedures, and EPA did not provide planned property training for Agency employees during fiscal 2011. Because EPA could not account for these property items, it was not exercising proper control over \$2.1 million of accountable personal property. Inaccurate personal property records compromise EPA's property control system and can lead to the loss or misappropriation of Agency assets.

EPA Should Secure Marketable Securities

EPA does not perform inspections of the safe in which marketable securities received should be stored to ensure that the securities are adequately safeguarded and that the contents of the safe agree with accounting or control records. The U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, states, "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records." By not securing marketable securities, EPA increases the risk of loss or theft of its assets.

EPA Recognized Earned Revenue in Excess of Expenditures

EPA recorded earned revenue without recognizing corresponding expenses. At the end of fiscal 2011, EPA had recorded \$7 million more in earned revenue in the Oil Spill Reimbursable (HR) Fund than it recognized in HR reimbursable expenses. The fund had a balance of \$74.5 million in Earned Revenue Federal Billed versus \$67.5 million for Operating Expense Public Exchange. These balances were the totals after EPA recorded (1) a \$5.7 million entry to accrue unbilled reimbursements and earned revenue, and (2) a \$1.1 million entry to reduce advances from other agencies and to increase earned revenue. Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources*, requires agencies to match revenue and expenses. The Agency did not properly match revenues and expenses in the HR Fund at the end of fiscal 2011 because it made earned revenue accrual entries without recognizing an equal amount in accrued expenses. The \$7 million imbalance in the HR Fund code violates the matching principle required by the standard.

EPA Is Withholding Payments Related to BP Deepwater Horizon Oil Spill Cleanup

As of September 30, 2011, EPA had not paid contractors working on the Deepwater Horizon oil spill \$6.6 million, of which \$2.8 million is late under the Prompt Payment Act. EPA violated the Antideficiency Act in November 2010 because it made expenditures in excess of funds available. To avoid a second potential Antideficiency Act violation, EPA delayed payments to vendors, resulting in the Agency being required to make interest penalty payments to vendors as required by the Prompt Payment Act. Section 1315.4(g) of the Prompt Payment Act states that payment is due (1) on the date specified in the contract, (2) in accordance with discount terms when discounts are offered and taken, (3) in accordance with Accelerated Payment Methods, or (4) 30 days after the start of a payment period, when a proper invoice is received. The Agency withheld payments to vendors because it did not have sufficient cash in its Deepwater Horizon Oil Spill funds to pay its bills. By not paying contractors on time, EPA is incurring interest payments and is losing the opportunity to take discounts.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in attachment 3 should be considered among EPA's significant deficiencies for fiscal 2011. We reported to the Agency on less significant internal control matters in writing during the course of the audit. We will not issue a separate management letter.

Comparison of EPA's FMFIA Report With Our Evaluation of Internal Controls

OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FMFIA report that relate to the financial statements, and identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

The Agency reported that no material weaknesses had been found in the design or operation of internal controls over financial reporting as of June 30, 2011. We did not identify any material weaknesses during the course of our audit. Details concerning our findings on significant deficiencies can be found in attachment 1.

Tests of Compliance With Laws and Regulations

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. A number of ongoing investigations involving EPA's grantees and contractors could disclose violations of laws and regulations, but a determination about these cases has not been made. The results of our tests of compliance with laws and regulations are summarized below and detailed in attachment 2.

EPA Violated the Antideficiency Act in Its Oil Spill Response Trust Account

In January 2011, EPA notified OMB that it violated the Antideficiency Act when EPA made expenditures in excess of funds available in the Oil Spill Response Account in the amount of \$502,215. The violation occurred because the U.S. Coast Guard (USCG) did not timely reimburse EPA for BP Deepwater Horizon oil spill response expenses. According to EPA, the reason for the reimbursement delay was that USCG wanted EPA to provide a greater level of cost documentation than had been acceptable in the past. By spending more funds than were available, EPA violated the Antideficiency Act.

Federal Financial Management Improvement Act Compliance

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet the FFMIA requirement, we performed tests of compliance with FFMIA Section 803(a) requirements and used the OMB guidance, *Memorandum M-09-06, Implementation Guidance for the Federal Financial Management Improvement Act dated January 9, 2009*, for determining substantial noncompliance with FFMIA. The results of our tests did not disclose any instances in which the Agency's financial management systems did not substantially comply with FFMIA requirements.

No other significant matters involving compliance with laws and regulations came to our attention during the course of the audit. We will not issue a separate management letter.

Our audit work was also performed to meet the requirements in 42 U.S.C. §9611(k) with respect to the Hazardous Substance Superfund Trust Fund, to conduct an annual audit of payments, obligations, reimbursements, or other uses of the fund. The significant deficiencies reported above also relate to Superfund.

Prior Audit Coverage

During previous financial or financial-related audits, we reported weaknesses that impacted our audit objectives in the following areas:

- Collectibility of federal receivables and recording of any needed allowances for doubtful accounts
- Headquarters property items not inventoried
- Improper closing of accounts when cancelling Treasury symbols
- Uncollectible debt misstated
- Financial system user account management
- Security planning for Customer Technology Solutions equipment
- Assessing automated application processing controls for the Integrated Financial Management System (IFMS)

Attachment 3 summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues.

Agency Comments and OIG Evaluation

In a memorandum dated November 10, 2011, the Agency responded to our draft report.

The rationale for our conclusions and a summary of the Agency comments are included in the appropriate sections of this report, and the Agency's complete response is included as appendix II to this report.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Paul C. Curtis
Director, Financial Statement Audits
Office of Inspector General
U.S. Environmental Protection Agency
November 15, 2011

Internal Control Significant Deficiencies

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1—Accounts Receivable Detail Not Provided Timely

EPA regional and headquarters offices did not timely submit supporting documentation to CFC so that CFC could promptly record accounts receivable in the financial system. EPA policies state that within 5 business days of determining a debt is owed to the Agency, the responsible office must forward source documents to CFC. RPO, ORC, EAB, ALJ, OECA, and regional LEO staff are responsible for providing this documentation. CFC stated that the offices may have been unaware of the 5-day policy, or may have simply forgotten to send the documentation. When CFC is unable to create receivables timely, the debtor may not be billed appropriately, interest may not accrue, and EPA may not collect all that it is owed. Further, EPA's delayed recording of accounts receivable could result in a material misstatement of the financial statements.

According to GAO's *Standards for Internal Control in the Federal Government*, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. EPA's Resource Management Directive System (RMDS) 2550D-14-T1 requires Servicing Finance Offices to maintain ongoing communications with the RPOs, ORCs, and LEOs regarding the status of settlement agreements and to ensure that accounts receivable source documents are forwarded within 5 business days.

From our audit of accounts receivable, we found that the offices did not timely forward supporting documentation (e.g., consent decrees, consent agreements and final orders, administrative orders, etc.) to CFC for 39 receivables totaling \$106 million. CFC received associated source documents from 1 day to over 2 years late. Table 1 provides a summary of the relevant exceptions found during our audit.

Table 1: Summary of receivables support not received timely

Sample	Number of samples	Number of exceptions	Dollar amount of exceptions
<i>6th month:</i>			
Department of Justice Report	27	6	\$58,314,473.66
Integrated Compliance Information System Report	11	7	4,584,500.00
Superfund Control ^a	29	10	27,610,137.88
All Other Control ^b	12	0	0.00
Subtotal	79	23	\$90,509,111.54
<i>9th month:</i>			
Department of Justice Report	18	8	\$13,528,177.32
Integrated Compliance Information System Report	4	1	140,000.00
Superfund Control	2	1	1,704,020.70
All Other Control	2	0	0.00
Subtotal	26	10	\$15,372,198.02
<i>Year-end:</i>			
Integrated Compliance Information System Report	16	6	\$508,000.00
Subtotal	16	6	\$508,000.00
Total	121	39	\$106,389,309.56

Source: OIG analysis.

^a One Department of Justice exception was also noted in Superfund Control Testing but excluded from *Number of Exceptions* and *Dollar Amount of Exceptions* in our analysis to avoid double counting.

^b One Integrated Compliance Information System and one Department of Justice exception were also noted in All Other Control Testing but excluded from *Number of Exceptions* and *Dollar Amount of Exceptions* in our analysis to avoid double counting.

EPA's RMDS, as updated in April 2011, establishes procedures for timely providing supporting documentation for receivables. RMDS 2550D-14-T1 addresses Superfund receivables and requires the originating office to forward to the Servicing Finance Office copies of all Superfund consent decrees and judgments within 5 business days of receipt from the court. RMDS 2540-9-P3 specifically addresses administrative penalties and referrals of civil enforcement cases to the Department of Justice. The directive requires that the originating office ensure that documentation of administrative orders and bankruptcy proceedings with civil penalties are provided to CFC within 5 business days. For regionally initiated administrative enforcement actions, ORC Regional Hearing Clerks are to ensure that penalties are entered in the EPA Case Tracking System, which automatically sends a request to CFC to establish a billing document. It also states that OECA will develop internal processes to ensure that, in the case of OECA-initiated administrative enforcement actions, all documentation for administrative penalty debt/accounts receivable is sent to CFC along with the request for CFC to establish a billing document. OECA also coordinates with CFC to determine the appropriate action when a penalty debt/accounts receivable is 120 days past due.

For regionally initiated cases, the ORC/LEO/RPO is required to provide effective ongoing communication with the finance center regarding the status of settlement agreements to prevent untimely recording of accounts receivable. For headquarters-initiated cases, the Headquarters Hearing Clerk, the EAB, and OECA's Air Enforcement Division are responsible for notifying CFC after an order becomes final. Untimely receipt of accounts receivable source documentation results in inaccurate balances in the Agency's financial management system. Therefore, we believe that regional and headquarters offices and CFC should work together to resolve this control issue.

Recommendation

We recommend that the Assistant Administrator for Enforcement and Compliance Assurance:

1. Require that regional and headquarters enforcement officials assist CFC by implementing EPA's newly updated RMDS policy, which includes the requirement to forward legal documentation within 5 business days and to designate regional contacts so that receivables are recorded timely.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendation. OECA responded that in October 2011 it issued processes for headquarters-initiated administrative enforcement actions. Headquarters-initiated cases include those resolved by ALJ, EAB, or OECA's Air Enforcement Division. OECA requires these offices to make orders available to CFC within 5 business days of the order's effective date.

2—Federal Reimbursable Costs Not Billed Timely

EPA did not timely bill other federal agencies for \$2,210,617 of reimbursable costs. We found costs that had not been billed for up to 9 years. In addition, \$3,150,692 and \$521,589 of reimbursable expenses were recorded in funds cancelled in fiscal 2010 and 2011, respectively. Reimbursable costs were not timely billed to other federal agencies because EPA had difficulty reconciling costs incurred to costs billed under individual reimbursable agreements. Untimely billing of reimbursable costs causes delays in replenishing funds spent on reimbursable agreements. Also, untimely billing results in EPA losing the ability to obligate and/or spend funds due to the expiration and subsequent cancellation of funds before they are collected. For example, we identified \$3.7 million of reimbursable expenses due from other agencies in fiscal 2010 and 2011 in cancelled funds. Since the funds are now cancelled, if EPA does bill such amounts, the collections must be returned to Treasury and will not be available to EPA.

EPA provides goods or services to other federal agencies and is reimbursed for its expenses under reimbursable agreements. Under reimbursable agreements, EPA uses reimbursable authority provided by OMB to perform agreement activities. Reimbursable authority is a type of borrowing authority that exists for definite periods of time as long as the authority from the year of funding exists and is not expired or cancelled.

OMB Circular A-11, S20, states that during the expired phase, no new obligation can be incurred against the appropriations. At the end of the expired phase, all obligated and unobligated balances must be cancelled and the account closed. Cancelled balances may not be used to incur or pay obligations. Collections authorized or required to be credited to a cancelled appropriation that are received after the account is closed must be deposited in the Treasury as miscellaneous receipts. Therefore, once the appropriation in which the expenditures were incurred expires or cancels, EPA no longer has the ability to obligate and/or spend those funds if collected.

To execute reimbursable agreements, EPA assigns a unique reimbursable account number (budget organization code) to each reimbursable agreement. The budget organization code for each interagency agreement identifies obligations pertaining to that agreement, and costs of performance must be charged to reimbursable account numbers. As EPA performs work specified in the agreement, EPA should bill the other agency for costs incurred in providing the services or goods, and be reimbursed by the other agency for those costs.

During our analysis of the fiscal 2011 fourth quarter federal unbilled accrual, we identified more than \$2 million of reimbursable expenses incurred from budget fiscal years (BFYs) 2000 through 2008 that were not billed to other federal agencies, as shown in table 2.

Table 2: Federal reimbursable costs not timely billed

BFY	Expended amount	Billed amount	Unbilled amount
2000	\$909,056.80	855,371.83	\$53,684.97
2001	804,873.23	702,805.84	102,067.39
2002	700,161.16	681,766.76	18,394.40
2003	6,748,900.32	6,746,253.27	2,647.05
2004	1,881,762.95	1,804,949.75	76,813.20
2005	394,948,066.24	394,383,011.57	565,054.67
2006	35,943,703.28	35,610,641.09	333,062.19
2007	23,233,385.48	23,072,839.72	160,545.76
2008	59,463,193.87	58,564,846.32	898,347.55
Total	\$524,633,103.33	\$522,422,486.15	\$2,210,617.18

Source: OIG analysis.

Not timely billing reimbursable costs may result in EPA losing the ability to obligate and spend those funds, because collections must be returned to Treasury if the budgetary authority has been cancelled. For example, we identified unbilled reimbursable expenses of about \$3.2 million and \$522,000 remaining in cancelled funds from BFYs 2002 through 2004, as shown in table 3. These unbilled reimbursable expenses were moved to the miscellaneous receipt Treasury account. As a result, EPA no longer had the ability to obligate and or spend funds collected due to the cancellation of funds.

Table 3: Unbilled costs in cancelled funds

BFY	Expended amount	Billed amount	Unbilled amount	Year cancelled
2002–2003	\$16,008,647.30	\$12,857,955.39	\$3,150,691.91	2010
2003–2004	3,933,402.14	3,411,813.33	521,588.81	2011

Source: OIG analysis.

In response to our inquiry as to why the reimbursable expenses incurred in prior years have not been billed, the Agency stated that there may be problems with the agreements, expenses may not be identified to an agreement, or the expenses may have just recently been paid.

Not timely billing other federal agencies for reimbursable costs (1) causes unnecessary delays in replenishing funds spent on reimbursable agreements, (2) limits EPA's ability to recover all costs before funding authority cancels, and (3) could result in EPA using appropriated funds to cover reimbursable costs incurred. If EPA does not bill and collect the funds before the funds expire, it is not able to obligate and expend additional funds from those accounts.

Recommendations

We recommend that the Chief Financial Officer:

2. Review unbilled federal reimbursable expenses, determine their collectibility, and bill appropriate funds before the funding period is cancelled.

3. Create and implement a process to reconcile expenses incurred and costs billed under individual reimbursable agreements.
4. Develop a process or implement a reporting system to track, for each reimbursable agreement, the expenses that have been billed for each budget fiscal year.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

3—EPA’s Process for Cancelling Treasury Symbols Caused Inappropriate Account Balances

EPA did not properly close general ledger accounts in its cancelling Treasury symbols. We identified two instances in which EPA inappropriately recorded general ledger entries to close accounts when it cancelled Treasury symbols. *Treasury Financial Manual Bulletin No. 2011-07*, Section 21, states that agencies must cancel any remaining balances (whether obligated or unobligated) in a closed appropriation account being cancelled, and report valid receivable and payable balances associated with a cancelled Treasury Appropriation Fund Symbol. Because EPA did not review the net impact to current Treasury funds, EPA’s improper cancellation procedures resulted in various misstated general ledger accounts. Consequently, the financial statements were misstated, although the misstatements were not material to the financial statements as a whole.

EPA’s closing procedures for accounts receivable in cancelled expenditure accounts resulted in a \$6.5 million credit balance in the general ledger account, Expense Uncollectible Debt, Other Finances (Uncollectible Debt Expense). This account should normally have a debit balance. A credit balance in this account indicates that either the Agency has revenue from uncollectible debts or the general ledger account is otherwise misstated. EPA uses Standard Vouchers with predetermined debit(s) and credit(s) to record accounting events that occur on a recurring basis in accordance with its Comptroller Policy 93-02, *Policies for Documenting Agency Financial Transactions*. EPA moved the balances from the cancelling appropriation without properly reviewing the net impact on current Treasury funds.

This is the third year we have reported this issue. In fiscal 2009 and 2010, we recommended that EPA review and update its required standard voucher entries. In response to our recommendations, EPA noted that it would review the impact of accounting entries, including standard vouchers for billing documents, and provide accounting models and technical advice as appropriate. EPA has not made changes to accounting entries in the year-end instructions.

The procedure also resulted in an understatement in the general ledger account, Allowance for Loss on Accounts Receivable (Allowance for Loss). EPA did not properly record the Allowance for Loss from cancelling appropriations in fund 3200 (Treasury Symbol for the Collection of Receivable from Cancelled Account) along with the related account receivables. We found that in fund 3200 nonfederal receivables increased by \$6.4 million from last fiscal year, but the related allowance account activity changed by \$3,000. The Agency did not move the related allowances from the cancelling appropriations to fund 3200, resulting in the overstatement of the receivables net book value. Table 4 shows the fund 3200 balance as of year-end.

Table 4: Fund 3200 account balances

GL	GL account name	2011 balance	2010 balance	Diff \$	Diff %
13P3	Billed Misc Receipts Public	\$27,667,949.59	\$21,293,448.77	\$6,374,500.82	29.94%
13P9	Allow For Loss On A/R, Non Fed	(17,317,474.61)	(17,320,502.51)	3,027.90	-0.02%

Source: IFMS and OIG analysis.

EPA recorded this entry in accordance with its *Year-End Closing Instructions*, which requires finance centers to remove accounts receivable and the related allowance for doubtful accounts from cancelling appropriations, and establish the receivables in fund 3200. The instructions do not allow for establishing the related allowance in fund 3200. SFFAS No. 1 states that an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. EPA required movement of balances without properly reviewing the closing entries' net impact on current Treasury funds. In doing so, the entry caused an understatement in the Allowance for Loss account in fund 3200. By not recording the related allowance for the receivables, EPA is overstating the net book value of the receivables in fund 3200.

OMB Circular A-127, *Financial Management Systems*, requires financial management systems to provide complete, reliable, consistent, timely, and useful financial management information on federal government operations. If EPA had properly reviewed the two general ledger accounts for the effect of the closing entries prior to the fiscal period close, EPA could have noticed the net impact on current Treasury funds. By not reviewing the entries and the account balances, EPA understated Uncollectible Debt Expense and Allowance for Loss in the financial statements.

Recommendations

We recommend that the Chief Financial Officer:

5. Revise the cancellation procedures to ensure accounts are properly stated.
6. Post the proper Allowance for Loss.
7. Revise the *Year-End Closing Instructions*, to prescribe proper procedures for closing accounts.
8. Prior to year-end closing, review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements.

Agency Comments and OIG Evaluation

The Agency did not concur with our finding and recommendations. The Agency stated it posted the appropriate adjustments, it is following Treasury guidance, and balances are properly stated. Our analysis of the Agency's adjustments to cancel a receivable and the related allowance revealed they understated fiscal 2011 revenue and bad debt expense. The understatement occurred because the Agency reversed the receivable and related allowance accounts creating postings that decreased revenue and bad debt expense. While the understatements are not material to the financial statements taken as a whole, we believe the Agency should have reviewed the impact of the closing entries and posted the proper adjustments so that revenue and expense were properly stated.

4—EPA Double Counted Contractor-Held Property

EPA double counted 97 items of capitalized property in its financial system because it did not remove from its financial system property that had been transferred to contractors. As a result, these items were recorded as both EPA-held property and contractor-held property. The double-counted property had an acquisition cost of \$12.3 million and a net book value of \$5 million. EPA property guidance states that when contractors are furnished with government property, the property is deleted from the financial system. The contractor-held property items were not removed because EPA does not have a policy that states who is responsible for removing contractor-held property from EPA's financial system. Without clear policies, neither OCFO nor OARM has taken responsibility to ensure that EPA property transferred to contractors is deleted from EPA's financial system. The double counting resulted in capitalized property being overstated by \$5 million in fiscal 2011.

EPA's *Personal Property Policy and Procedures Manual* states that as an integral part of all EPA contracts, effective control and accountability must be maintained for all personal property furnished by EPA or acquired with EPA funds, in accordance with the Federal Acquisition Regulations and EPA's *Contracts Management Manual*. Section 5.2.1 of the property manual states, "When contractors are furnished with government property, it is deleted from the IFMS and the contractor becomes responsible for the property until such time as it is returned to the Government. In such cases, the Government retains title to the property."

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management:

9. Develop and implement policies and procedures to address responsibility for the removal of EPA property from the Agency financial system when EPA property is transferred to contractors.
10. Ensure that all EPA property that has been transferred to contractors is removed from EPA's financial system.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

5—EPA Headquarters Cannot Account for 1,284 Property Items

EPA headquarters could not account for 1,284 personal property items in fiscal 2011 as required by EPA's *Personal Property and Procedures Manual*. Headquarters mid-level management was not knowledgeable of Agency property management procedures, and EPA did not provide planned property training for Agency employees during fiscal 2011. Because EPA could not account for these property items, it was not exercising proper control over \$2.1 million of accountable personal property. Inaccurate personal property records compromise EPA's property control system and can lead to the loss or misappropriation of Agency assets.

The OARM Facilities Management and Services Division is responsible for administering the EPA Personal Property Management Program. EPA defines accountable personal property as "non-expendable personal property with an acquisition cost of \$5,000 or greater, EPA-leased personal property, or property identified as a sensitive item." EPA's *Personal Property and Procedures Manual*, Section 3.1.1, states that each accountable area must maintain personal property records in the IFMS, thus providing all needed data for effective personal property management (e.g., location, procurement, utilization, and disposal). The missing items indicate that accurate personal property records are not being maintained. The *Personal Property Policy and Procedures Manual*, Section 1.3.2, requires that, when property is lost, damaged, or destroyed, a Board of Survey conduct a thorough investigation and provide recommendations to remove the property from EPA's financial system. Headquarters has 77 requests for board action on the 976 items from fiscal 2010.

As of October 15, 2011, EPA headquarters could not account for 1,284 accountable personal property items with a value of \$2,130,427. EPA headquarters could not account for 769 of the items (valued at \$1,288,817) missing from the fiscal 2010 inventory when it conducted its 2011 inventory. This is the third consecutive year we have reported this problem. In fiscal 2010 and 2009, EPA headquarters could not account for 1,134 and 1,804 items, respectively. In response to our fiscal 2010 audit, EPA planned to develop a mandatory online property training program. However, the target date for implementing the training program slipped from March 30, 2011, to November 15, 2011.

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management require the Director, Facilities Management and Services Division, to:

11. Conduct planned property training and require completion of the course by all EPA managers.
12. Address the missing personal property items in accordance with Agency procedures.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

6—EPA Should Secure Marketable Securities

EPA does not perform inspections of the safe in which marketable securities should be stored to ensure that securities are adequately safeguarded and that the contents of the safe agree with accounting or control records. GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, states, "An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records." By not securing marketable securities, EPA increases the risk of loss or theft of its assets.

During our fiscal 2011 financial statement audit, we found that EPA received two Common Stock Certificates from Exide Technologies totaling \$1.2 million that were not placed in a safe for safeguarding. During our review, we found that EPA does not have regularly scheduled reviews of the safe. After our inquiry, EPA stated that it does not schedule inspections of the safe because the safe is rarely used. In addition, we noted that the safe was located in an open area instead of in a more secure location, such as a locked room.

Securities physically received by EPA should be secured in a safe until they are transferred to Treasury for disposition. To properly safeguard securities, access to securities should be limited to authorized personnel only. During our review, we found that EPA does not have regular scheduled reviews of the safe. By not having controls in place for safe inspections, EPA has minimal assurance that marketable securities received are properly accounted for and handled.

Recommendations

We recommend that the Chief Financial Officer:

13. Develop and implement procedures to perform inspections of the safe on a regular basis to verify the contents against accounting records.
14. Move the safe to a secure area, such as a locked room, instead of keeping the safe in an open area.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendation to develop and implement procedures to perform inspections of the safe on a regular basis. The Agency did not concur with moving the safe to a secure area, stating the safe is behind a desk, weighs 1,000 pounds, and there is other office security; we concluded that no further action is required.

7—EPA Recognized Earned Revenue in Excess of Expenditures

EPA recorded earned revenue without recognizing corresponding expenses. At the end of fiscal 2011, EPA had recorded \$7 million more in earned revenue in the HR Fund than it recognized in HR reimbursable expenses. The fund had a balance of \$74.5 million in Earned Revenue Federal Billed versus \$67.5 million for Operating Expense Public Exchange. These balances were the totals after EPA recorded (1) a \$5.7 million entry to accrue unbilled reimbursements and earned revenue, and (2) a \$1.1 million entry to reduce advances from other agencies and to increase earned revenue. SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, requires agencies to match revenue and expenses. The Agency did not properly match revenues and expenses in the HR Fund at the end of fiscal 2011 because it made earned revenue accrual entries without recognizing an equal amount in accrued expenses. The \$7 million imbalance in the HR Fund code violates the matching principle required by the standard.

We extracted and reviewed the fiscal 2011 ending balances in general ledger accounts in the HR Fund. The year-end balances showed that EPA reported \$74.5 million in earned revenue in general ledger account 522G—Earned Revenue Federal Billed. EPA also reported \$67.5 million in operating expenses in account 61PE—Operating Expense Public Exchange. These two balances represent a surplus of \$7.0 million in the HR account at year end, which violates the principle of matching revenues and expenses. EPA created the imbalance when it recorded entries to recognize unbilled reimbursements for the HR Fund code at year end. The amounts EPA recorded and the resulting balances are shown in table 5:

Table 5: HR Fund code amounts in fiscal 2011

Event	G/L Account 522G earned revenue	G/L Account 61PE operating expense	Revenue- expense
	<i>in millions</i>		
Balances in HR at 09/30/2011	(\$61.4)	\$61.2	(\$0.2)
Entries recorded in the 13th and 14th months to record unbilled reimbursements and recognize oil spill reimbursable revenue	(13.1)	0.0	(13.1)
Entries made in 13th month to accrue exchange expenses	0.0	6.3	6.3
Balances in HR at 09/30/2011 (after accruals and adjusting entries)	(74.5)	67.5	(7.0)

Source: Data from IFMS and OIG analysis.

SFFAS No. 7 establishes the criteria for the recognition and measurement of revenue and expenses. The guidance notes that revenue comes from two sources: exchange and nonexchange transactions. The guidance requires agencies to match revenue and expenses. Exchange (reimbursable funds) revenue is to be recognized at the time goods or services are provided (i.e., when expenses are incurred).

EPA created the \$7 million difference in HR revenues over expenses when it prepared entries for the 13th- and 14th-month periods. EPA adjusted general ledger account 2315—Other Advances

Federal, recognizing \$1.1 million in earned revenue without recognizing expenses. EPA also recorded an entry for \$5.7 million to adjust the unbilled reimbursement accrual, which increased earned revenue that was already recognized. The \$5.7 million was based on accounts payable recorded in late September 2011. When those payables were recorded, earned revenue was properly recognized. However, EPA's entry to adjust the unbilled accrual recognized the \$5.7 million in earned revenue for a second time. By not taking into account the total impact of its entries, EPA overstated earned revenue by \$5.7 million and understated operating expense by \$1.1 million in the HR Fund. The net effect was earned revenue exceeding operating expenses in the HR Fund, and exchange revenues not properly matching expenses at fiscal year-end 2011.

Recommendations

We recommend that the Chief Financial Officer:

15. Review the entries and accounting models used to record expenditures and recognize earned revenue to assess their impact on the financial statements and to ensure that they result in the proper recognition of revenue.
16. Ensure that exchange revenue is only recognized at the time goods or services are provided.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

8—EPA Is Withholding Payments Related to BP Deepwater Horizon Oil Spill Cleanup

As of September 30, 2011, EPA had not paid contractors working on the Deepwater Horizon oil spill \$6.6 million, of which \$2.8 million is late under the Prompt Payment Act. EPA violated the Antideficiency Act in November 2010 because it made expenditures in excess of funds available. To avoid a second potential Antideficiency Act violation, EPA delayed payments to vendors, resulting in the Agency being required to make interest penalty payments to vendors as required by the Prompt Payment Act. Section 1315.4(g) of the Prompt Payment Act states that payment is due (1) on the date specified in the contract, (2) in accordance with discount terms when discounts are offered and taken, (3) in accordance with Accelerated Payment Methods, or (4) 30 days after the start of a payment period, when a proper invoice is received. The Agency withheld the payments because it did not have sufficient cash in its Deepwater Horizon oil spill funds to pay its bills. By not paying contractors on time, EPA is incurring interest payments and is losing the opportunity to take discounts.

The Agency was aware that it would have to pay interest as required by the Prompt Payment Act if it did not pay the bills timely. The Agency was forced into this situation because of disputes between EPA and USCG on invoices submitted for reimbursement. EPA has not received sufficient emergency funding from USCG to reimburse the Oil Spill Response Trust Fund for costs incurred by EPA's response to the April 2010 Deepwater Horizon incident. This lack of funding prompted EPA to make a conscious decision to cease payments to its oil spill contractors on September 12, 2011. It is not clear when EPA will obtain the funds necessary to resume payment of the oil spill invoices. As of November 7, 2011, EPA has not resumed payments. Consequently, EPA owes contractors the \$6.6 million due as of September 30, 2011, as well as any interest and late penalties, and debts incurred since September 30, 2011.

Recommendations

We recommend that the Chief Financial Officer:

17. Resume payments to the oil spill contractors as soon as adequate funds are available in the Oil Spill Response Trust Fund.
18. Include in payments to contractors the interest penalties prescribed by the Prompt Payment Act for invoices that are paid past their due dates.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

Compliance With Laws and Regulations

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9—EPA Violated the Antideficiency Act in Its Oil Spill Response Account

In January 2011, EPA notified OMB that it violated the Antideficiency Act when it made expenditures in excess of funds available in the Oil Spill Response Account in the amount of \$502,215. The violation occurred because USCG did not timely reimburse EPA for BP Deepwater Horizon oil spill response expenses. According to EPA, the reason for the reimbursement delay was that USCG wanted EPA to provide a greater level of cost documentation than had been acceptable in the past. By spending more funds than were available, EPA violated the Antideficiency Act.

The Deepwater Horizon incident occurred in April 2010. According to EPA, starting on June 1, 2010, EPA's CFC regularly monitored the cash balance of the Oil Spill Response Account. According to EPA, in July 2010, EPA requested a cash advance from USCG due to large amounts being invoiced by contractors working on the response action. In August 2010, USCG provided EPA with a \$32 million advance. EPA used the advance to pay contractor invoices, as well as Agency payroll and travel expenses, related to the Deepwater Horizon response work. On October 27, 2010, EPA advised USCG that additional advances would be required to pay oil spill response bills, but USCG was unwilling to provide additional advances because of cost documentation concerns. In EPA OIG Report No. 11-P-0527, *EPA's Gulf Coast Oil Spill Response Shows Need for Improved Documentation and Funding Practices*, August 25, 2011, we identified that EPA needed to improve its cost documentation packages prior to submittal to USCG. The report recommended that EPA implement controls to ensure that bills and supporting cost documentation packages submitted to USCG are clear and complete, and comply with cost documentation requirements.

To assist in cash management, EPA developed a cash monitoring report intended to include all transaction costs, but the report did not include disbursements related to indirect costs. EPA discovered this issue on November 23, 2010. In a revised cash monitoring report that included indirect costs, EPA discovered a negative cash balance in the Oil Spill Response Account on November 18 and 19, 2010. By spending more cash than available, EPA violated the Antideficiency Act. Title 31 U.S.C. §1341(a) states, "An officer or employee of the United States Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation."

Since the date of the violation, EPA has established several reporting and analysis measures and safeguards. The measures include (1) establishing a new comprehensive funds-availability report that includes indirect costs distributed from the account, (2) balancing the new report with the fund balance with the Department of Treasury at the end of each month, and (3) analyzing the historical monthly expenses to estimate future expenses. In addition, EPA indicated that it will revise its administrative funds control policies to change the minimum required available cash balance from \$500,000 to \$2 million or more if the balance cannot support payment of anticipated fixed costs, and bill USCG weekly or when a disbursement of \$1 million or more is made.

Recommendations

We recommend that the EPA Administrator:

19. Finalize the reporting of the Antideficiency Act violation to the President, through the OMB Director, Congress, and the Comptroller General, as required.

We recommend that the Chief Financial Officer:

20. Work with USCG to come to a mutual agreement on what constitutes acceptable cost documentation so that reimbursements do not continue to be delayed.

Agency Comments and OIG Evaluation

The Agency concurred with our finding and recommendations.

Status of Prior Audit Report Recommendations

EPA is continuing to strengthen its audit management to address audit follow-up issues and complete corrective actions expeditiously and effectively to improve environmental results. The Chief Financial Officer is the Agency follow-up official and is responsible for ensuring that corrective actions are implemented. During fiscal 2011, OCFO instituted a new quarterly report that highlights the status of management decisions and corrective actions. This report is shared with program office and regional managers throughout the Agency to keep them informed of the status of progress on their audits. OCFO also initiated an update of EPA Order 2750, *EPA's Audit Management Process*. Additionally, OCFO continued to conduct the on-site reviews of national and program offices, which it initiated in fiscal 2009. The reviews focus on offices' audit follow-up procedures and their use of the Management Audit Tracking System, or MATS. The reviews are designed to promote sound audit management; increase Agency awareness of, accountability for, and completion of unimplemented corrective actions; and ensure that audit follow-up data are accurate and complete. OCFO completed seven of these on-site reviews in fiscal 2011, including four of regional offices and three of national program offices. These reviews will be performed on an ongoing, rotating basis.

The Agency has continued to make progress in completing corrective actions from prior years. The status of issues from prior financial statement audits and other audits with findings and recommendations that could have an effect on the financial statements, and have corrective actions that are not completed or have not been demonstrated to be fully effective, are listed in the following table.

Table 6: Significant deficiencies—issues not fully resolved

<ul style="list-style-type: none"> Automated Application Processing Controls for IFMS EPA has taken action to correct this open issue by implementing a new financial system to replace IFMS. The new system was implemented in October 2011. We continue to report this issue because the fiscal 2011 financial statements were produced using IFMS and the same inability to test application controls due to insufficient system documentation still exists within IFMS.
<ul style="list-style-type: none"> EPA Misstated Uncollectible Debt and Other Related Accounts In fiscal 2011, we recommended that prior to year-end closing, EPA should review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements. This is the third year we have reported this issue. In responses to prior recommendations, EPA noted that it would review the impact of accounting entries, including standard vouchers for billing documents, and provide accounting models and technical advice as appropriate. EPA has not made changes to accounting entries in the year-end instructions. See attachment 1, "Internal Control Significant Deficiencies," for more information.
<ul style="list-style-type: none"> Improvements Needed in Controls for Headquarters Property The Agency has not taken sufficient action to address the weakness we noted in the headquarters annual personal property inventory. As described in attachment 1, "Internal Control Significant Deficiencies," EPA headquarters could not account for 1,284 personal property items in fiscal 2011. The activation date for the managers' on-line property training has slipped from March 30, 2011, to November 15, 2011.

- **Integrated Financial Management System User Account Management Needs Improvement**

EPA has made significant strides to complete corrective actions associated with the segregation of duties issue noted during the fiscal 2009 financial statement audit. To date, the Agency has implemented a segregation of duties policy and detective systems controls do exist. However, it has not provided sufficient documentation to show that the new Agency financial management system includes automated controls to enforce separation of duties (recommendation 27 in the fiscal 2009 financial statement audit report). Additionally, the OIG recommended that the new financial management system include automated controls to link to human resources data (recommendation 32 in the fiscal 2009 financial statement audit report). To date, EPA has not implemented any corrective actions in response to this recommendation. EPA has indicated that no further actions have been taken due to reevaluation of the business case for a new human resources system.
- **Improved Security Planning Needed for the Customer Technology Solutions Project.**

Though EPA has taken steps to complete corrective actions, it has not provided all signed memoranda of understanding for each General Support System owner as agreed upon. A corrective action was rescheduled to be completed by August 29, 2011, but corrective actions are still incomplete. EPA has not provided an updated milestone date for when it plans to complete the corrective actions associated with this report's recommendations.
- **EPA Should Assess Collectibility of Federal Receivables and Record Any Needed Allowances for Doubtful Accounts**

EPA fully implemented recommendations 5 and 7 from our fiscal 2010 financial statement audit, but did not take full corrective actions for recommendation 6. In our fiscal 2011 financial statement audit, we found that EPA did not review the collectibility of 10 federal receivables that had been outstanding for 4 to 11 years, totaling \$793,000. EPA's CFC did not document efforts to collect the federal debt or determine the debt's status after the 3-year delinquent period. During our review of the federal allowance for doubtful accounts, we identified 6 of 10 receivable files with the CFC Director's signature noting a review on September 30, 2011, but nothing was in the remaining 4 files. Debt files are required to document efforts to collect the debt.
- **EPA Improperly Closing Accounts When Cancelling Treasury Symbols**

During fiscal 2010, we reported that EPA processed an adjusting entry to close out the Treasury symbol 682/30108, and improperly expensed the advance as well as removed other liabilities when the funds became cancelled on September 30, 2010. We found that the Working Capital Fund had not refunded the remaining advanced funds to EPA's Environmental Programs and Management appropriation. EPA responded that the advanced funds were expended before the Treasury symbol was cancelled, and the funds were spent in Treasury symbol 683/40108. Subsequently, EPA performed a reconciliation to compare advanced funds recorded in BFY 2002/2003 with drawdowns of those advanced funds in later BFYs. This comparison reflected activity by service agreement and did not identify the specific transactions to record the expenditures. EPA did not adequately track where the advanced funds from BFY 2002/2003 were spent. Further, although EPA's updated cancellation procedures seemed reasonable, the implementation of the cancellation procedures resulted in inappropriate activity and balances due to the cancellation of funds and improper procedures prescribed in the fiscal 2011 year-end closing instructions. Additional support provided by the Agency was not provided in time to be considered in this report.

Source: OIG analysis.

Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	12	Require that regional and headquarters enforcement officials assist CFC by implementing EPA's newly updated RMDS policy, which includes the requirement to forward legal documentation within 5 business days and to designate regional contacts so that receivables are recorded timely.	U	Assistant Administrator for Enforcement and Compliance Assurance			
2	14	Review unbilled federal reimbursable expenses, determine their collectibility, and bill appropriate funds before the funding period is cancelled.	U	Chief Financial Officer			
3	15	Create and implement a process to reconcile expenses incurred and costs billed under individual reimbursable agreements.	U	Chief Financial Officer			
4	15	Develop a process or implement a reporting system to track, for each reimbursable agreement, the expenses that have been billed for each budget fiscal year.	U	Chief Financial Officer			
5	17	Revise the cancellation procedures to ensure accounts are properly stated.	U	Chief Financial Officer			
6	17	Post the proper Allowance for Loss.	U	Chief Financial Officer			
7	17	Revise the <i>Year-End Closing Instructions</i> , to prescribe proper procedures for closing accounts.	U	Chief Financial Officer			
8	17	Prior to year-end closing, review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements.	U	Chief Financial Officer			
9	18	Develop and implement policies and procedures to address responsibility for the removal of EPA property from the Agency financial system when EPA property is transferred to contractors.	U	Assistant Administrator for Administration and Resources Management			
10	18	Ensure that all EPA property that has been transferred to contractors is removed from EPA's financial system.	U	Assistant Administrator for Administration and Resources Management			
11	19	Require the Director, Facilities Management and Services Division, to conduct planned property training and require completion of the course by all EPA managers.	U	Assistant Administrator for Administration and Resources Management			

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
12	19	Require the Director, Facilities Management and Services Division, to address the missing personal property items in accordance with Agency procedures.	U	Assistant Administrator for Administration and Resources Management			
13	20	Develop and implement procedures to perform inspections of the safe on a regular basis to verify the contents against accounting records.	U	Chief Financial Officer			
14	20	Move the safe to a secure area, such a locked room, instead of keeping the safe in an open area.	C	Chief Financial Officer	11/10/2011		
15	22	Review the entries and accounting models used to record expenditures and recognize earned revenue to assess their impact on the financial statements and to ensure that they result in the proper recognition of revenue.	U	Chief Financial Officer			
16	22	Ensure that exchange revenue is only recognized at the time goods or services are provided.	U	Chief Financial Officer			
17	23	Resume payments to the oil spill contractors as soon as adequate funds are available in the Oil Spill Response Trust Fund.	U	Chief Financial Officer			
18	23	Include in payments to contractors the interest penalties prescribed by the Prompt Payment Act for invoices that are paid past their due dates.	U	Chief Financial Officer			
19	26	Finalize the reporting of the Antideficiency Act violation to the President, through the OMB Director, Congress, and the Comptroller General, as required.	U	EPA Administrator			
20	26	Work with USCG to come to a mutual agreement on what constitutes acceptable cost documentation so that reimbursements do not continue to be delayed.	U	Chief Financial Officer			

¹ O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is unresolved with resolution efforts in progress

***EPA's Fiscal 2011 and 2010
Consolidated Financial Statements***

Provided separately.

Agency Response to Draft Report



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460**

November 10, 2011

OFFICE OF
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Audit of EPA's Fiscal Year 2011 and 2010 Consolidated Financial Statements

FROM: Barbara J. Bennett
Chief Financial Officer

/s/ Original Signed By:

Craig Hooks, Assistant Administrator **/s/ Original Signed By:**
Office of Administration and Resources Management

Cynthia Giles, Assistant Administrator **/s/ Original Signed By:**
Office of Enforcement and Compliance Assurance

TO: Arthur A. Elkins, Jr.
Inspector General

Fiscal Year 2011 marks another successful financial statements audit cycle for the U.S. Environmental Protection Agency. This year, we continued agency partnerships with a focus on strengthening fiscal integrity, enhancing core business operations and contributing to agencywide performance management systems. We are proud of the many accomplishments and thank you for identifying additional areas for improvement in the draft Office of Inspector General's Audit Report. The audit work performed will help shape future financial management initiatives.

Our offices worked together to expand stakeholder involvement thereby engaging all parts of the agency in fiscal stewardship yielding significant results. Attached are the agency's responses to this audit report. Detailed corrective action plans will be provided to you and your staff within 90 days of the issuance of the final audit report.

Please let me know if you have any questions or your staff can contact Stefan Silzer, Director, Office of Financial Management of (202) 564-5389 regarding the audit.

Attachment

cc: Craig Hooks, Assistant Administrator, Administration and Resources Management
Cynthia Giles, Assistant Administrator, Office of Enforcement and Compliance Assurance
Melissa Heist, Assistant Inspector General for Audit
Maryann Froehlich, Deputy Chief Financial Officer
Joshua Baylson, Associate Chief Financial Officer
Stefan Silzer, Director, Office of Financial Management
Raffael Stein, Director, Office of Financial Services
Renee Page, Director, Office of Administration
Jeanne Conklin, Deputy Director, Office of Financial Management
Paul Curtis, Director, Financial Statements Audit
Jim Wood, Director, Cincinnati Finance Center
Chris Osborne, Acting Staff Director, Reporting and Analysis Staff
Dale Miller, Acting Staff Director, Financial Policy and Planning Staff

Response to Draft OIG Audit of EPA's Fiscal 2011 and 2010 Consolidated Financial Statements

1 - Accounts Receivable Detail Not Provided Timely by Regions

We recommend that the Assistant Administrator for Enforcement and Compliance Assurance:

1. Request that regional enforcement officials assist Cincinnati Finance Center by implementing the EPA's newly updated Resource Management Directives System policy, which includes the requirement of forwarding legal documentation within 5 business days and designating regional contacts so that receivables are recorded timely.

Response: (Concur)

The Office of Enforcement and Compliance Assurance will continue to work with the regions and CFC and outline additional actions to be taken in the implementation of the EPA's newly updated RMDS policy including the requirement of forwarding legal documentation within 5 business days and designating regional contacts so that receivables are recorded timely. This effort requires the coordination of headquarters enforcement offices, the Department of Justice, the Environmental Appeals Board and the Office of Administrative Law Judges in addition to the regional offices to work with CFC to create accounts receivable in a timely manner.

We request the following corrections be made in the draft audit report.

- In the case of non-Superfund civil judicial cases, RMDS 2540-9-43 (Procedure 3), issued on April 13, 2011, states that the DOJ will notify and provide CFC with documentation when a final order is issued requiring the payment of a civil penalty.
- In October 2011, the OECA issued internal procedures governing penalties assessed under headquarters initiated administrative enforcement actions.
- For Superfund enforcement-related accounts receivable, RMDS 2550D-14-T1 covers five types of statutory Superfund accounts receivable (i.e., cost recoveries, cash outs, Superfund state contract cost share payments, future response costs, and civil and stipulated penalties).
- Among the 39 exceptions noted in the draft audit report, some of these involved cases for which DOJ or headquarters did not provide timely notification to CFC.

Over the course of the last year, OECA has taken the following steps to address this issue. First, the Office of Civil Enforcement worked closely with other OECA offices and with the Office of the Chief Financial Officer to revise the RMDS policy governing non-Superfund penalties. Second, by memorandum dated October 4, 2011, signed by OECA's former Principal Deputy Assistant Administrator Catherine McCabe and OCFO's Deputy Chief Financial Officer Maryann Froehlich,

OECA and OCFO advised the Regional Administrators, Deputy Regional Administrators and Senior Enforcement Managers of the new procedures issued by OCFO requiring the notification to CFC when penalty accounts receivable are created. Third, as required under Procedure 3, OECA issued internal procedures for EPA headquarters-originated administrative enforcement cases.

In addition on November 17, 2011, OCE and OCFO will be presenting a webinar for the regions, headquarters and staff at the EAB and the OALJ to explain the revised RMDS policy, how to coordinate with CFC on a timely and consistent basis and to explain the performance measure that requires notification to CFC within 5 business days of the effective date of a final administrative order assessing civil penalties and Superfund penalty actions.

With regard to Superfund-related enforcement accounts receivable, the Office of Site Remediation Enforcement is developing a training course, to be delivered to all regions, on how to effectively manage Superfund accounts receivable. The training will include a section that emphasizes the need for regional offices to forward executed copies of settlement agreements, and other legal documents, establishing amounts due to CFC within 5 business days as provided in RMDS 2550D-14-T1.

Finally, we have been working with OCFO on a FY 2012 performance measure for notifying and providing CFC with documentation regarding penalty and other enforcement-related accounts receivable within 5 business days. OCFO has committed to provide quarterly reports to senior management in OECA and the regions assessing the extent to which the regions and headquarters are meeting this performance metric. Throughout FY 2012, we will be working with regional enforcement managers, OCFO and the Department of Justice to ensure that enforcement-related accounts receivable are created in a timely manner.

2 - Federal Reimbursable Costs Not Billed Timely

We recommend that the Chief Financial Officer:

2. Review unbilled federal reimbursable expenses, determine their collectability and bill appropriate funds before the funding period is cancelled.

Response: (Concur)

The CFC works diligently to research, resolve, and bill outstanding reimbursable costs and will continue to research and resolve unbilled costs particularly before the funding period is cancelled. CFC reviews and bills all active funds-in Interagency Agreements on a quarterly basis. Expenditure reports for unique budget organization are reviewed by previously billed amount prior to creating a bill for new costs. In addition, CFC will research methods to allocate costs if it cannot be identified to an agreement and research their collectability once identified to an IA.

3. Create and implement a process to reconcile expenses incurred and costs billed under individual reimbursable agreements.

Response: (Concur)

CFC currently processes expense reports under individual reimbursable agreements. These reports are maintained in the agreement file along with a log of bills, date the bills were issued and remaining balance on the agreement. CFC will continue to maintain these records either manually in the agreement files or within the Compass financial system.

4. Develop a process or implement a reporting system to track, for each reimbursable agreement, the expenses that have been billed for each budget fiscal year.

Response: (Concur)

CFC manually tracks these costs in each agreement file using the OCFO Reporting and Business Intelligence Tool and Compass Data Warehouse reports. CFC is also exploring using functionality within Compass to link the budget organizations and agreement for reimbursable costs. This should eliminate charging to generic or “unlinked” budget organizations.

3 - EPA’s Processes for Cancelling Treasury Symbols Caused Inappropriate Balances

We recommend that the Chief Financial Officer:

5. Revise the cancellation procedures to ensure accounts are properly stated.

Response: (Non-Concur)

The Treasury financial management guidance supports the agency’s position in regards to how it cancels a Treasury Account Symbol. The EPA cancellation procedures support this guidance and are properly stated.

6. Post the proper Allowance for Loss.

Response: (Non-Concur)

The EPA has posted the appropriate adjustments to close the TAS and establish the correct balances in the 3200 miscellaneous receipt account.

7. Revise the *Year-End Closing Instructions*, to prescribe proper procedures for closing accounts.

Response: (Non-Concur)

The EPA Year End Closing Instructions already provide proper procedures for closing accounts.

8. Prior to year-end closing, review and test the net impact of closing entries to ensure proper statement of expenses, revenue, and assets in the financial management system and financial statements.

Response: (Non-Concur)

The EPA properly handled cancellation of the TAS; no further work is deemed necessary.

4 - EPA Double Counted Contractor-Held Property

We recommend that the Assistant Administrator for Administration and Resources Management:

9. Develop and implement policies and procedures to address responsibility for the removal of EPA property from its financial system when it is transferred to contractors.

Response: (Concur)

The Office of Administration and Resources Management will review current policies and procedures and revise as needed to ensure they address responsibilities for the removal from its financial system when it is transferred to contractors. Current procedures are in place to inform contracting officers, project managers, contractors and agency property personnel on how to handle property transfers to contractors. While the appropriate agency guidance exists in the Contract Management Manual and the Property Policy and Procedures Manual, agency and contractor compliance remains a challenge. Additionally, frequent turnover of positions necessitates an increase in both training and cross training of COs and Agency Property Managers. Agency property management duties are collateral duties that, in some cases, are rotated among program level staff.

OARM is committed to developing a training program for all parties associated with the contract property process during FY 2012. As part of an on-going review and improvement program, OARM will continue to provide periodic training information to COs on the importance of ensuring that all contracts having contract property clauses are identified as such in the U.S. Environmental Protection Agency Acquisition System. Additional guidance and training is being developed to improve communications and eliminate this issue. In addition, the agency's Contractor Property Coordinator sent an informational memo regarding potential double counting issues to APMs on October 13, 2011.

The following points highlight significant action taken by OARM during FY 2011 to address the issue:

- The CPC provided training to contracting officers at the annual training conference and attended three APM's monthly teleconferences to address the issues and answer questions.
- OARM implemented a quarterly assessment and management certification program on property management and reporting. This program will aid in the improvement of the agency's compliance with federal and EPA property policies, improve data

accuracy through verification and validation and ensure the effectiveness of management and oversight systems that support government property tracking and reporting systems.

- The Operating Division Directors and Regional Acquisition Managers are provided with reports on a quarterly basis, from EAS and Federal Procurement Data System-Next Generation on contracts under their purview that have government property and/or government property clauses. Each ODD and RAM is required to: 1) review the information for accuracy and completeness, 2) make any necessary corrections, and 3) validate that all necessary information has been provided or when it will be provided to the CPC. Using the data from both EAS and FPDS-NG, OARM has the reporting capability to identify contracts containing CHP and/or the government property clauses, as well as a management tool to verify that COs are forwarding contracts containing CHP to the CPC in compliance with *Contracts Management Manual* 42.5. These two reports provide an independent process methodology for identifying and verifying the universe of the EPA's contracts containing CHP.
- OARM has also created a new position for data quality as part of its Strategic Acquisition Human Capital Plan and found new avenues to electronically collect information on government property from contracts.

10. Ensure that all EPA property that has been transferred to contractors is removed from EPA's financial system.

Response: (Concur)

OARM has already taken steps to remedy the issues surrounding data collection and maintenance for Government property. A more comprehensive and accurate list of contractors having contracts and agency contract property clauses has been compiled and is being used to validate the FY 2011 annual reporting. The list contains 396 contracts: 1) 69 had reportable contract property greater than or equal to \$25,000, 2) 191 had no property, and 2) 136 had property but no property at the \$25,000 level. A review is underway to identify any duplicative recording and ensure corrective action where necessary.

5 - EPA Headquarters Cannot Account for 1,284 Property Items

We recommend that the Assistant Administrator for Administration and Resources Management require the Director, Facilities Management and Services Division, to:

11. Conduct planned property training and require completion of the course by all EPA managers.

Response: (Concur)

The planned property training course has been developed and is posted on the agency's website. Over the next week, the Assistant Administrator for OARM will send a notification letter to the agency's senior managers outlining the training course instructions and training commencement.

12. Address the missing personal property items in accordance with agency procedures.

Response: (Concur)

OARM is currently addressing the missing personal property items in accordance with agency procedures. OARM is currently working with the Board of Survey to investigate the remaining items from previous years. The Board plans to make a decision on missing items shortly and it is anticipated the recommendation will be to mark the missing items as inactive in the agency's financial system.

6 - EPA Should Secure Marketable Securities

We recommend that the Office of Chief Financial Officer:

13. Develop and implement procedures to perform inspections of the safe on a regular basis to verify the contents against accounting records.

Response: (Concur)

CFC will create and maintain a log of accountable items in the safe.

14. Move the safe to a secure area, such a locked room, instead of keeping the safe in an open area.

Response: (Non-Concur)

The safe is currently in a secure area and is located behind the CFC administrative assistant's desk out of the general flow of the office. The safe is the size of a four drawer file cabinet and weighs over 1,000 pounds. The building has a guard sitting in the lobby 24 hours/7 days a week and non-duty hours access to the building is restricted and monitored through a sign-in sheet.

7 - EPA Recognized Earned Revenue in Excess of Expenditures

We recommend that the Chief Financial Officer:

15. Review the entries and accounting models used to record expenditures and recognize earned revenue to assess their impact on the financial statements and to ensure that they result in the proper recognition of revenue.

Response: (Concur)

The accounting model will be reviewed and verified.

16. Ensure that exchange revenue is only recognized at the time goods or services are provided.

Response: (Concur)

The EPA concurs.

8 - EPA is Withholding Payments Related to BP Deepwater Horizon Oil Spill Cleanup

We recommend that the Chief Financial Officer:

17. Resume payments to the oils spill contractors as soon as adequate Oil Spill Response Trust funds are available.

Response: (Concur)

The EPA will process the payments to the contractors as soon as adequate funds are available.

18. Include in the payments the interest penalties prescribed by the Prompt Payment Act for invoices that are paid past their due dates.

Response: (Concur)

The EPA will include the interest on all payments over 30 days in accordance with the Prompt Payment Act.

9 - EPA Violated the Antideficiency Act in Its Oil Spill Response Account

We recommend that the EPA Administrator:

19. Finalize the reporting of the Antideficiency Act violation to the President, through the Office of Management and Budget Director, Congress and the Comptroller General, as required.

Response: (Concur)

The agency will continue to work with OMB to finalize the submission of the Antideficiency Act letters. The EPA Administrator signed the letters on October 25, 2011 and they were delivered to OMB. The required notification letters are awaiting OMB clearance.

We recommend that the Chief Financial Officer:

20. Work with USCG to come to a mutual agreement on what constitutes acceptable cost documentation so that reimbursements do not continue to be delayed.

Response: (Concur)

The OCFO and U.S. Coast Guard have been in discussions for the past several months to identify a process to ensure the timely submission and reimbursement of agency costs while adhering to the cost documentation requirements of the U.S. Coast Guard.

Responsible Managers:

/s/ Original Signed By: November 10, 2011
Signature/Date
Stefan Silzer, Director, Office of Financial Management

/s/ Original Signed By: November 10, 2011
Signature/Date
Raffael Stein, Director, Office of Financial Services

/s/ Original Signed By: November 10, 2011
Signature/Date
Craig Hooks, Assistant Administrator for Administration and Resources Management

/s/ Original Signed By: November 10, 2011
Signature/Date
Cynthia Giles, Assistant Administrator for Enforcement and Compliance Assurance

Distribution

Administrator
 Chief Financial Officer
 Assistant Administrator for Administration and Resources Management
 Assistant Administrator for Enforcement and Compliance Assurance
 Assistant Administrator for Environmental Information and Chief Information Officer
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 Associate Administrator for Congressional and Intergovernmental Relations
 Associate Administrator for External Affairs and Environmental Education
 Acting Director, Office of Policy and Resource Management, Office of Administration and
 Resources Management
 Director, Office of Administration, Office of Administration and Resources Management
 Director, Office of Civil Enforcement, Office of Enforcement and Compliance Assurance
 Director, Office of Site Remediation Enforcement, Office of Enforcement and Compliance
 Assurance
 Director, Office of Technology Operations and Planning, Office of Environmental Information
 Director, Office of Budget, Office of the Chief Financial Officer
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 Director, Office of Financial Services, Office of the Chief Financial Officer
 Director, Research Triangle Park Finance Center, Office of the Chief Financial Officer
 Director, Cincinnati Finance Center, Office of the Chief Financial Officer
 Director, Las Vegas Finance Center, Office of the Chief Financial Officer
 Director, Office of Planning, Analysis, and Accountability, Office of the Chief Financial Officer
 Director, Reporting and Analysis Staff, Office of the Chief Financial Officer
 Director, Office of Technology Solutions, Office of the Chief Financial Officer
 Director, Financial Policy and Planning Staff, Office of the Chief Financial Officer
 Director, Accountability and Control Staff, Office of the Chief Financial Officer
 Director, Payroll Management and Outreach Staff, Office of the Chief Financial Officer
 Agency Audit Follow-Up Coordinator
 Audit Follow-Up Coordinator, Office of the Administrator
 Audit Follow-Up Coordinator, Office of the Chief Financial Officer
 Audit Follow-Up Coordinator, Office of Administration and Resources Management
 Audit Follow-Up Coordinator, Office of Enforcement and Compliance Assurance
 Audit Follow-Up Coordinator, Office of Environmental Information
 Audit Follow-Up Coordinator, Office of Solid Waste and Emergency Response
 Audit Follow-Up Coordinator, Office of Grants and Debarment, Office of Administration and
 Resources Management
 Audit Follow-Up Coordinator, Office of Financial Management, Office of the
 Chief Financial Officer
 Audit Follow-Up Coordinator, Office of Financial Services, Office of the Chief Financial Officer

Section III

Other Accompanying Information

MANAGEMENT INTEGRITY AND CHALLENGES

Overview of the EPA's Efforts

Management challenges and integrity weaknesses represent vulnerabilities in program operations that may impair the EPA's ability to achieve its mission and threaten the agency's safeguards against fraud, waste, abuse and mismanagement. These areas are identified through internal agency reviews and independent reviews by the EPA's external evaluators, such as OMB, GAO and the EPA's OIG. This section of the AFR discusses in detail two components related to challenges and weaknesses: 1) a brief discussion of the EPA's progress in addressing its FY 2011 integrity weaknesses and 2) key management challenges identified by the EPA's OIG, followed by the agency's response.

Under the FMFIA, all federal agencies must provide reasonable assurance that policies, procedures and guidance are adequate to support the achievement of their intended mission, goals and objectives. (See Section I, "Management Discussion and Analysis," for the Administrator's assurance statements.) Agencies also must report any material weaknesses identified through internal and/or external reviews and their strategies to remedy the problems. Material weaknesses are vulnerabilities that could significantly impair or threaten fulfillment of the agency's programs or mission. For FY 2011, no new material weaknesses were identified by the agency or the OIG. (See following subsection for a discussion of new, existing and corrected weaknesses and significant deficiencies.)

The agency's senior managers remain committed to maintaining effective and efficient internal controls to ensure that program activities are carried out in accordance with applicable laws and sound management policy. Agency leaders meet periodically to review and discuss the EPA's progress in addressing issues raised by OIG and other external evaluators, as well as progress in addressing current weaknesses and emerging issues. The agency will continue to address its remaining weaknesses and report on its progress.

PROGRESS IN ADDRESSING FY 2011 WEAKNESSES AND SIGNIFICANT DEFICIENCIES

In FY 2011, the EPA continued to address its agency-level internal control weaknesses and significant deficiencies. This section discusses the weaknesses resolved in FY 2011, as well as those for which corrective actions are still underway.

Agency Weaknesses

Program Evaluation

In its September 2007 report, *Using the Program Assessment Rating Tool as a Management Control Process*, OIG identified several limitations to systematically conducting program evaluations at the EPA. These include: 1) funding limitations; 2) lack of internal and external expertise; 3) the need for strategic investment in program evaluation; 4) insufficient data/performance measurement information; and 5) lack of participation and willingness from states. The EPA declared *Program Evaluation* as an agency-level weakness in FY 2009.

To address this weakness, the agency developed a two-part program evaluation strategy that included various focus areas to strengthen the EPA's evaluation capabilities. In FY 2011, the agency continued to take steps to implement key actions in the two-part program evaluation strategy and to strengthen program evaluation throughout the agency. In part one of the strategy, the EPA seeks to strengthen internal expertise and build access to external expertise to move closer to achieving its long-term goal of establishing a program evaluation culture at the EPA. In part two of the strategy, the EPA seeks to improve strategic investments in program evaluation planning and partnerships.

In addition to the strategy, the agency has taken other actions to strengthen program evaluation at the EPA:

- Designated a senior executive responsible for developing a more robust evaluation capacity at the EPA
- Established guidelines for conducting program evaluation, and considering funding during annual planning and budgeting process.
- Built strategic relationships with external evaluators by co-sponsoring the Environmental Evaluators Network Forum
- In collaboration with EEN partners, developed a peer-reviewed article and a comprehensive database of peer-reviewed literature

FY 2011 Weaknesses and Significant Deficiencies

Agency Weaknesses

1. Program Evaluation*
2. Strengthening the Agency's Implementation of FMFIA
3. Permit Compliance System
4. Streamlining EPA's Process for Developing Chemical Assessments Under IRIS
5. Electronic Content Management

Significant Deficiencies

1. Improperly Closed Account*
2. Reconciling Unearned Revenue for Superfund State Contract Costs
3. Collectability of Federal Receivables
4. Headquarters Personal Property Controls
5. EPA Double Counted Contractor Held Property**
6. Federal Reimbursable Costs Not Billed Timely**
7. EPA is Withholding Payments Related to Deepwater Horizon Oil Spill Cleanup**
8. EPA Recognized Earned Revenue in Excess of Expenditures**
9. Accounts Receivable Detail Not Provided Timely By Regions **

* All corrective actions were completed in FY 2011.

** Items identified as new in FY 2011.

- Maintain access to skilled external evaluators to develop methodologies and to provide specialized skills and expert reviews
- Increased the number of evaluations listed in the FY 2011-2015 Strategic Plan
- Through efforts underway, improving the strategic use of performance measurement for program management and improvement

The agency has completed all the corrective actions for this weakness. The EPA will continue to monitor progress in carrying out the two-part program evaluation strategy. To enhance program evaluation in the EPA's performance measurement system, the agency plans to initiate 1-2 larger scale program evaluations. Additionally, the agency will continue to improve impact measurement and evaluation capacity by supporting partnerships with states and academic experts.

Strengthening the Agency's Implementation of FMFIA

In FY 2009, the EPA declared *Strengthening the Agency's Implementation of FMFIA* as an agency-level weakness. OIG believes that the agency's management integrity guidance for FYs 2008 and 2009 did not require reporting on compliance with all of the GAO's five Standards for Internal Control in the Federal Government, as referenced in OMB Circular A-123.

The agency has taken steps to strengthen the EPA's FMFIA process and to address OIG concerns. Specifically, the agency has:

- Issued Deputy Administrator and CFO memorandum emphasizing the importance of maintaining internal controls over programmatic operations and financial activities, and clarifying expectations for senior leadership.
- Released on-line mandatory FMFIA courses and trained almost 2,000 agency senior managers (AAs/RAs, SES, and GS-15s designated by their AA/RA), 335 agency staff including Management Integrity Advisors.
- Held a training workshop for all agency Management Integrity Advisors to enhance their knowledge of internal controls, risk assessment, and the agency's management integrity program.
- Issued technical guidance and user-friendly fillable forms/templates for developing Program Review Strategies which require reporting against all five GAO standards.
- Conducted Management Integrity Program Compliance Reviews of six regional and five headquarters national program offices. Findings from the reviews have informed the FY 2010 and FY 2011 Management Integrity Guidance for the agency.

The agency will continue conducting Program Compliance Reviews in selected national program and regional offices to assess the agency's FMFIA implementation and determine needs for guidance, training, and other tools and assistance. Additionally, the EPA will use reviews conducted by OIG, or other oversight agencies, to determine the effectiveness of corrective actions. The agency is validating the effectiveness of corrective actions and expects to close this weakness in FY 2012.

Permit Compliance System

In FY 1999, the EPA declared Permit Compliance System as an agency-level weakness. The weakness focuses on the need for the EPA to revitalize or replace PCS to provide an information system that both the states and the EPA can use to ensure complete and accurate NPDES permit and discharge data.

Although the EPA has now developed and successfully implemented a modern, national information system designed to meet the needs of today's NPDES permitting and enforcement program, not all of the states have been migrated from PCS to the new system ICIS. Currently, 34 states, 2 tribes, 8 territories and the District of Columbia are using the new system. That leaves 16 states remaining to be migrated to ICIS, all of which are authorized to manage the NPDES program. The plan is to complete the modernization of PCS and migrate those 16 states from PCS to ICIS in FY 2013.

In FY 2011, the agency:

- Completed User Validation and Acceptance Testing for Wave I of ICIS-NPDES Full Batch functionality.
- Implemented Wave I of ICIS-NPDES Full Batch (capability to electronic report permit and facility data from states to ICIS-NPDES) functionality.
- Migrated five (FL, KY, MO, MN, OH) additional states from PCS to ICIS-NPDES.
- Completed Software Technical Specifications for Wave 2 of ICIS-NPDES Full Batch functionality (electronic reporting of NPDES inspection data from states to ICIS-NPDES).
- Completed Software Development for Wave 2 of ICIS-NPDES Full Batch functionality.
- Completed Functional and Integration testing of Wave 2 of ICIS-NPDES Full Batch functionality.
- Completed Software Technical Specifications for Wave 3 of ICIS-NPDES Full Batch functionality (electronic reporting of NPDES Enforcement Actions, Program Reports and violation related data from states to ICIS-NPDES).
- Begun Software Development for Wave 3 of ICIS-NPDES Full Batch functionality.

The final closure date for this agency level weakness is projected to be the end of fourth quarter FY 2013. This completion date is based on various assumptions and estimates.¹

Streamlining EPA's Process for Developing Chemical Assessments Under IRIS

In FY 2009, the EPA declared *Streamlining EPA's Process for Developing Chemical Assessments Under IRIS* as an agency-level weakness. GAO identified "Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals" as a high-risk area in its January 2009 High-Risk Series. In its report, GAO states that the agency needs to take actions to increase the transparency of the Integrated Risk Information System and enhance its ability under the Toxic Substances Control Act to obtain health and safety information from the chemical industry.

In May 2009, the agency released a new Integrated Risk Information System process for completing health assessments. The goal of the new process is to strengthen program management, increase transparency and expedite the timeliness of health assessments. Since that time, the agency's National

¹ This completion date is based on various assumptions about the future and, therefore, any changes to the assumptions would impact the schedule. For FY 2011 and beyond, we assumed that annual funding will rise to \$ 7.5 million. (If EPA assumes the President's budget level of \$6.7 continues in FY 2011 and beyond, the schedule would likely move 5 or more quarters into the future, with a shut down date for PCS delayed until FY 2015). Further, as with any project, extended timelines for completion add risk to the project, and predictions about when the project will be completed become more speculative.

Center for Environmental Assessment has completed 16 assessments, more than the number of assessments completed in the previous three years. Additionally, the agency is making significant progress on health hazard assessments of numerous high priority chemicals (e.g. formaldehyde, trichloroethylene, perchloroethylene, dichloromethane, arsenic, chromium VI, methanol, benzo[a]pyrene and Libby asbestos), including the completion of milestones for interagency science consultation, external review or posting on the IRIS web page. Progress on these and other IRIS assessments is available at <http://www.epa.gov/IRIS/>. Assessments of health effects for chemicals found in environmental mixtures including PAHs, dioxins, phthalates and PCBs are being developed. These cumulative assessments will increase the number of chemicals that are addressed by the IRIS Program and are based upon the expressed needs of the agency. The EPA's Human Health Risk Assessment program will continue to lead innovation in risk assessment science based on expanding scientific knowledge.

The EPA recently unveiled a new database that facilitates public access to the scientific studies that underpin key agency decisions. The Health Environmental Research Online database contains the key studies the EPA uses to develop environmental risk assessments for the public. It includes references and data supporting the Integrated Risk Information System, which supports critical agency policymaking. The HERO database is publicly accessible so anyone is able to review the scientific literature behind the EPA science assessments. The HERO database strengthens the transparency of the science supporting agency decisions.

The IRIS update project is in a pilot phase. Toxicity values in IRIS that are more than 10 years old have been identified, screened, and prioritized based on agency needs; the first group of 15 high priority assessments has been selected for update. A Federal Standing Science Review Committee, consisting of reviewers from the EPA and other federal agencies has been assembled. An independent contractor will lead and conduct independent external peer reviews of these assessments. A second batch of nine assessments should be ready for the FSSRC by December 2011, and a Federal Register notice announcing a new set of 20-30 chemicals.

In July 2011, the EPA announced additional measures to strengthen the scientific quality of IRIS assessments based on comments from the National Academy of Sciences. These measures include making assessment documents clearer, shorter and more transparent. The EPA will evaluate the strengths and weaknesses of critical studies in a more uniform way and clearly indicate which criteria were most influential in weighing scientific evidence supporting its choice of toxicity values. Also, the EPA will continue to track progress to determine if new timelines need adjustment.

Electronic Content Management

In FY 2009, the EPA declared Electronic Content Management at the EPA as an agency-level weakness. Although the agency has a formal, structured and vigorously managed records management program in place that has met past records management requirements, its roots can be found in traditional paper-based records management, maintenance and access. The agency's inconsistencies in how electronic content is stored, maintained and assessed have started to have an impact on critical processes related to electronic records management.

To implement effective changes to content management practices within the agency, corrective actions must be addressed enterprise-wide. An enterprise approach will allow for integration with the agency's lines of business and replace current piecemeal or ad hoc approaches. To accomplish this, the agency is implementing a system for the effective management of its information assets that will include a governance structure for content management as well as selection of enterprise tools, and the formulation of new policies for content management responsibilities and processes.

The agency has taken the following corrective actions to address this weakness:

- Established a new QIC Electronic Content Subcommittee
- Developed a charter for the subcommittee
- Established two enterprise-wide workgroups under the subcommittee
- Launched two pilot projects to evaluate tools for eDiscovery and the management of email records. The results of the pilot projects will be used to inform the subcommittee's decisions on future policy or tool implementation.

The agency anticipates that all remaining corrective actions will be completed in FY 2013.

Significant Deficiencies

EPA Improperly Closed Accounts When Cancelling Treasury Symbols

During the FY 2010 Financial Statement Audit, OIG stated that the EPA did not properly close the Fund Balance with Treasury when cancelling treasury symbols on September 30, 2010. *Treasury Financial Manual Bulletin No. 2009-04* states that agencies must cancel any remaining balances (whether obligated or unobligated) in the account being cancelled. The agency has taken a number of steps to ensure appropriate funds have been returned to Treasury.

In FY 2011, the agency:

- Conducted an analysis to determine whether funds needed to be returned to Treasury;
- Made the appropriate adjusting entry to treasury symbol;
- Reviewed procedures to ensure processes for reconciliations are in place to prevent future issues;
- Provided guidance to ensure balances are properly reported; and
- Evaluated procedures and revised them to ensure timely review of the balances in cancelling treasury symbols.

The agency is utilizing monitoring report information to ensure no variances exist for treasury symbols that will be cancelled at year-end. All corrective actions for this significant deficiency have been completed.

Improvement Needed in Billing Costs and Reconciling Unearned Revenue for Superfund State Contract Costs

During the FY 2009 financial statement audit, the OIG identified the failure of the EPA to properly review the calculations used to reconcile unearned revenue for SSC. costs as a material weakness. To remedy the material weakness, the agency improved accountability for the SSC contract requirements and site status information by researching transactions in older funds to determine validity; strengthening the review/verification process for reconciling Superfund site cost; and ensuring data and calculations used are consistent and properly supported. In FY 2010, based on the corrective actions taken, the issue was downgraded to a significant deficiency.

In FY 2011, the agency continued to provide instructions to the regions for careful review of the “closed” sites and the steps necessary to complete the closure activity. Extra measures and verifications were taken to ensure data entered on the spreadsheets was correctly transferred into the financial system. For instance, the review of the SSC spreadsheets was added to the regional review of internal controls over financial activities. This year, the process included ensuring that the spreadsheets were complete for all sites, that contract values and percentages were updated, and that credits were not only included but were for the correct amounts.

As part of the quarterly SSC accrual process, the agency will continue to send requests to the regions emphasizing the need to review all sites they have listed as ‘closed’ to make sure they are taking care of all actions. This included, but was not limited to, billing a particular state for its share of the costs, adjusting the contract values and/or percentages and reclassifying appropriated disbursements where applicable. The agency has included language in its quarterly call for regional input into the spreadsheets. This will help the regions ensure all billings are done timely.

The agency will continue to review the SSC process as part of its review of internal controls over financial activities. The agency anticipates that all corrective actions for this significant deficiency will be completed in FY 2012.

Assess Collectability of Federal Receivables and Record Any Needed Allowances for Doubtful Accounts

During the FY 2010 financial statement audit, OIG stated that the agency should assess federal receivables collectability and record any needed allowances for doubtful accounts. Historically, the EPA has not established allowances for delinquent federal debts because it considered all federal debts to be collectible. To remedy this significant deficiency, the agency reviewed its open federal debts to ensure accurate status, established new procedures to timely bill federal agencies; and issued a new policy to address delinquent federal receivables, Resource Management Directives System, 2540-12-P1, *Intragovernmental Business Rules – Delinquent Federal Accounts Receivable*.

The agency anticipates that all corrective actions for this significant deficiency will be complete in FY 2012.

Improvements Needed in Controls for Headquarters Personal Property

During the FY 2010 financial statement audit, OIG identified improvements needed in the controls for the EPA headquarters. The agency acknowledged several significant challenges with tracking personal property in the headquarters accountable area. To remedy this significant deficiency, the agency is developing training for all managers, revising the current policy and procedures manual, and establishing standard operating procedures. Additionally, the agency is conducting a “wall to wall” inventory of headquarters personal property and will share the results with stakeholders, as appropriate.

The agency anticipates that all corrective actions for this significant deficiency will be completed in FY 2012.

EPA Double Counted Contractor Held-Property

During the FY 2011 Financial Statement Audit, OIG stated that the EPA double counted contractor-held property in its financial system because it did not remove from its financial system property that had been transferred to contractors. To remedy this issue, the agency will review current policies and procedures and revise them as needed to ensure it addresses responsibilities for removing from its financial system property which is transferred to contractors. Current procedures are in place to inform Contracting Officers, project managers, contractors and agency property personnel on how to handle property transfers to contractors. While the appropriate agency guidance exists in the *Contract Management Manual* and the *Property Policy and Procedures Manual*, agency and contractor compliance remains a challenge. Additionally, frequent turnover of positions necessitates an increase in both training and cross training of COs and Agency Property Managers. Agency property management duties are collateral duties that, in some cases, are rotated among program level staff.

The agency is committed to developing a training program for all parties associated with the contract property process during FY 2012. As part of an on-going review and improvement program, the agency will continue to provide periodic training information to COs on the importance of ensuring that all contracts having contract property clauses are identified as such in EAS. Additional guidance and training is being developed to improve communications and eliminate this issue. In addition, the agency's Contractor Property Coordinator sent an informational memo regarding potential double counting issues to APMs on October 13, 2011.

In FY 2011, the agency has taken the following actions to address the issue:

- The CPC provided training to CO at the annual training conference and attended three APM monthly teleconferences to address the issues and answer questions.
- The agency implemented a quarterly assessment and management certification program on property management and reporting. This program will aid in the improvement of the agency's compliance with federal and agency property policies, improve data accuracy through verification and validation and ensure the effectiveness of management and oversight systems that support government property tracking and reporting systems.
- Operating Division Directors and Regional Acquisition Managers are provided with quarterly reports from EAS and Federal Procurement Data System-Next Generation on contracts under their purview that have government property and/or government property clauses. Each ODD and RAM is required to: 1) review the information for accuracy and completeness, 2) make any necessary corrections and 3) validate that all necessary information has been provided or note when it will be provided to the CPC. Using the data from both EAS and FPDS-NG, the agency has the reporting capability to identify contracts containing CHP and/or the government property clauses, as well as a management tool to verify that COs are forwarding contracts containing CHP to the CPC in compliance with *Contracts Management Manual* 42.5. These two reports provide an independent process methodology for identifying and verifying the universe of the EPA's contracts containing CHP.
- The agency has also created a new position for data quality as part of its Strategic Acquisition Human Capital Plan and found new avenues to electronically collect information on Government property from contracts.

The agency has already taken steps to remedy the issues surrounding data collection and maintenance for government property. A more comprehensive and accurate list of contractors having contracts and agency contract property clauses has been compiled and is being used to validate the FY 2011 annual reporting. The list contains 396 contracts: 1) 69 had reportable contract property greater than or equal to \$25,000, 2) 191 had no property, and 3) 136 had property but no property at the \$25,000 level. A review is underway to identify any duplicative recording and ensure corrective action where necessary.

The agency anticipates that corrective actions for this significant deficiency will be completed in FY 2012.

Federal Reimbursable Costs Not Billed Timely

During the FY 2011 Financial Statement Audit, OIG stated that the EPA did not timely bill other federal agencies for reimbursable costs. The agency works diligently to research, resolve, and bill outstanding reimbursable costs and will continue to research and resolve unbilled costs particularly before the funding period is cancelled. The agency reviews and bills all active funds in Interagency Agreements on a quarterly basis. Expenditure reports for unique budget organizations are reviewed by previously billed amount prior to creating a bill for new costs. In addition, the agency will research methods to allocate costs if they cannot be identified to an agreement and research their collectability once identified to an IA.

The agency currently processes expense reports under individual reimbursable agreements. These reports are maintained in the agreement file along with a log of bills, the dates the bills were issued and the remaining balance on the agreement. The agency will continue to maintain these records either manually in the agreement files or within Compass.

The agency anticipates that corrective actions for this significant deficiency will be completed in FY 2012.

EPA Is Withholding Payments Related to BP Deepwater Horizon Oil Spill Cleanup

During the FY 2011 Financial Statement Audit, OIG stated that the EPA withheld payments related to BP Deepwater Horizon Oil Spill. To remedy this issue, the agency will process the payments to the contractors as soon as adequate funds are available. The EPA will include the interest on all payments over 30 days in accordance with the Prompt Payment Act.

The agency anticipates that corrective actions for this significant deficiency will be complete in FY 2012.

EPA Recognized Earned Revenue in Excess of Expenditures

During the FY 2011 Financial Statement Audit, OIG stated that the EPA recorded earned revenue without recognizing corresponding expenses. To remedy this issue, the accounting model will be reviewed and verified. The EPA will ensure that exchange revenue is only recognized at the time goods or services are provided.

The agency anticipates that corrective actions for this significant deficiency will be completed in FY 2012.

Accounts Receivable Detail Not Provided Timely By Regions

During the FY 2011 Financial Statement Audit, OIG stated that the EPA did not provide timely accounts receivable supporting documentation to be promptly recorded in the financial system. To remedy this issue, the agency will continue to work with the regions and Cincinnati Finance Center and outline additional actions to be taken in the implementation of the EPA's newly updated RMDS policy, including the requirement to forward legal documentation within five business days and designate regional contacts so that receivables are recorded timely. This effort requires the coordination of headquarters enforcement offices, DOJ, the Environmental Appeals Board and the Office of Administrative Law Judges in addition to the regional offices to work with CFC to create accounts receivable in a timely manner.

Over the course of the last year, the agency has taken the following steps to address this issue. First, the agency worked closely with other internal offices to revise the RMDS policy governing non-Superfund penalties. Second, by memorandum dated October 4, 2011, signed by the Office of Enforcement Compliance and Assurance's former Principal Deputy Assistant Administrator Catherine McCabe and OCFO's Deputy Chief Financial Officer Maryann Froehlich, OECA and OCFO advised the Regional Administrators, Deputy Regional Administrators and Senior Enforcement Managers of the new procedures issued by OCFO requiring the notification to CFC when penalty accounts receivable are created. Third, as required under Procedure 3, OECA issued internal procedures for EPA headquarters-originated administrative enforcement cases.

In addition, the agency will be presenting a webinar for the regions and headquarters staff to explain the revised RMDS policy, how to coordinate on a timely and consistent basis and the performance measure that requires notification within five days of the effective date of a final administrative order assessing civil penalties and Superfund penalty actions.

With regard to Superfund-related enforcement accounts receivable, the agency is developing a training course, to be delivered to all regions, on how to effectively manage Superfund accounts receivable. The training will include a section that emphasizes the need for regional offices to forward executed copies of settlement agreements and other legal documents establishing amounts due within five business days as provided in RMDS 2550D-14-T1, *Superfund Accounts Receivable and Billings*.

Finally, the agency is working to develop a performance measure for notifying and providing documentation regarding penalty and other enforcement-related accounts receivable within five business days. The agency financial manager has committed to provide quarterly reports to agency enforcement senior managers in headquarters and the regions assessing the extent to which the regions and headquarters are meeting this performance metric. Throughout FY 2012, the agency will be working with its regional enforcement managers, financial managers and DOJ to ensure that enforcement-related accounts receivable are created in a timely manner.

The agency anticipates that corrective actions for this significant deficiency will be completed in FY 2012.

Summary of Financial Statement Audit

Audit Opinion	Audit Opinion: Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0

Summary of Management Assurance

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2) (A-123 Appendix A)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0		0	0	0

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

Conformance With Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems Conform to Financial Management System Requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Non-Conformances</i>	0	0	0	0	0	0

Compliance With FFMIA		
	Agency	Auditor
Overall Substantial Compliance	YES	YES
1. System Requirement	YES	
2. Accounting Standards	YES	
3. USSGL at Transaction Level	YES	

NOTE: See "EPA Holds Itself Accountable" in Section I of this report for additional information on FMFIA 2, FMFIA 4 and FFMIA presented in the summary graphs above."

2011 KEY MANAGEMENT CHALLENGES

The EPA's Top Major Management Challenges As Identified and Reported by the Office of Inspector General	FY 2009	FY 2010	FY 2011	Link to Agency Strategic Goal
The Need for a National Environmental Policy: Environmental quality depends on policies related to farming, energy, water, transportation and federal land management. A national environmental policy would help the EPA and other federal agencies go beyond existing, fragmented coordination efforts to set national environmental goals and set regulatory standards, particularly for problems that cross state or national borders or pose risks to future generations.		●	●	Cross-Goal
Water and Wastewater Infrastructure: Many drinking water and wastewater systems across the country are unable to maintain compliance with federal water standards due to needed repairs and new constructions. Over the next 20 years, the EPA estimates that approximately \$633 billion will be needed to pay for water and wastewater infrastructure. The EPA needs to lead in developing a coherent Federal strategy with states and local governments to assess and organize resources to meet water and wastewater infrastructure needs.	●	●		Goal 2
Oversight of Delegations to States: Due to differences between state and federal policies, interpretation, strategies and priorities. The EPA needs to more consistently and effectively oversee its delegation of programs to the states assuring that delegated programs are achieving their intended goals.	●	●	●	Cross-Goal
Safe Reuse of Contaminated Sites: The common practice of not removing all sources of contamination from hazardous sites is inhibited by a regulatory structure that places key responsibilities for monitoring and enforcing the long-term safety of contaminated sites on non-EPA parties that may lack necessary resources, information, and skill; changes in site risks as site conditions change over time; and existing weaknesses in the EPA's oversight of the long-term safety of sites as well funding deficiencies.	●	●	●	Goal 3
Limited Capability to Respond to Cyber Security Attacks: The EPA is highly vulnerable existing external network threats, despite reports from security experts that Advanced Persistent Threats, designed to steal or modify information without detection are becoming more prevalent throughout the government. Currently, the EPA has reported that over 5,000 servers and user workstations may have been compromised from recent cyber security attacks along with national security and confidential business and personal data. (Previous years reported under Homeland Security)	●	●	●	Cross Goal
Reducing Domestic Greenhouse Gas: In response to a Supreme Court ruling in April 2007, the EPA issued an endangerment finding that current and projected atmospheric concentrations of six GHGs threaten the public health and welfare of current and future generations. However, the EPA must take significant actions to address the adverse impacts of these air pollutants.		●		Goal 1
EPA's Framework for Assessing and Managing Chemical Risks: The EPA's effectiveness in assessing and managing chemical risks is limited by its authority to regulate chemicals under the Toxic Substances Control Act. Chemicals manufactured before 1976 were not required to develop and produce data on toxicity and exposure, which are needed to properly and fully assess potential risks.		●	●	Goal 4 Goal 5

Key Management Challenges

The Reports Consolidation Act of 2000 requires OIG to identify, briefly assess and report annually the most serious management and performance challenges facing the agency. In FY 2011, OIG identified five areas it considers the EPA's most pressing management challenges. The EPA has made progress in addressing the issues OIG identified and will continue to work diligently in assessing and resolving vulnerabilities before they become serious management issues. The following pages provide the entire OIG's Management Challenges report along with the EPA's response to each challenge.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JUN 29 2011

THE INSPECTOR GENERAL

MEMORANDUM

SUBJECT: EPA's Fiscal Year 2011 Management Challenges

TO: Lisa P. Jackson
Administrator

We are pleased to provide you with a list of areas the Office of Inspector General considers as key management challenges confronting the U.S. Environmental Protection Agency (EPA). The passage of the GPRA (Government Performance and Results Act) Modernization Act of 2010 provides a new government-wide definition of major management challenges. According to the Act, major management challenge means programs or management functions, within or across agencies, that have greater vulnerability to waste, fraud, abuse, and mismanagement where a failure to perform well could seriously affect the ability of an agency or the federal government to achieve its mission or goals.

The Reports Consolidation Act of 2000 requires our office to report what we consider as the most serious management and performance challenges facing the Agency. Given this requirement, our list includes management challenges and significant performance issues facing EPA. We used audit, evaluation, and investigative work, as well as additional analysis of Agency operations, to identify challenges and weaknesses. Additional challenges and weaknesses may exist in areas that we have not yet reviewed, and other significant findings could result from additional work. We provided detailed summaries of each challenge in the attachment.

Management Challenges	Page
Need for Greater Coordination of Environmental Efforts	1
Oversight of Delegations to States	4
Safe Reuse of Contaminated Sites	7
Limited Capability to Respond to Cyber Security Attacks	12
EPA's Framework for Assessing and Managing Chemical Risks	15

This year we deleted two management challenges (Water and Wastewater Infrastructure and Reducing Domestic Greenhouse Gas Emissions) because we moved relevant excerpts to the challenge on the need for greater coordination on environmental efforts.

We welcome the opportunity to discuss our list of challenges and any comments you might have.



Arthur A. Elkins, Jr.

Attachment

Need for Greater Coordination of Environmental Efforts

Congress passed the National Environmental Policy Act (NEPA) and created the U.S. Environmental Protection Agency (EPA) in 1970 to carry out national environmental policy. Before EPA's creation, more than a dozen federal agencies had environmental responsibilities, resulting in the lack of an organized, concerted focus to address pollution and degradation. Reorganization Plan No. 3 of 1970 created EPA and transferred to it programs housed in 15 units of several existing federal departments and independent agencies. Creating EPA served as the first step to address national environmental policy by consolidating separate federal efforts. Despite efforts to consolidate federal environmental programs, EPA's 2006-2011 Strategic Plan noted that 25 other federal departments and agencies conduct environmental activities.

In June 2010, we reported that NEPA does not outline a national strategy, set national priorities and goals, or unify all stakeholder efforts.¹ In addition, EPA faces challenges related to interagency coordination since EPA lacks complete authority or control over many activities that affect the condition of our nation's environment, such as land use and transportation planning. Environmental quality depends on policies related to farming, energy, water, transportation, and federal land management, but neither Congress nor the Executive Branch has fully engaged in harmonizing these issues.

Funding and budget data illustrate the degree to which other agencies have a role in protecting the environment. For example, nearly 20 percent (\$147 billion) of the total funding of \$787 billion under the American Recovery and Reinvestment Act of 2009 (ARRA) has gone to federal agencies other than EPA that have environmental mandates in areas such as energy usage, air quality, climate change, water quality, solid and hazardous waste, materials management, or land conservation. Budget data also identify potential areas of duplication and the need to coordinate more efficiently cross-agency efforts to achieve environmental goals. Testimony in 1995 by the Comptroller General noted that, "The lack of an integrated approach to government leads to redundancy and waste. Government can make huge efforts to provide services to the public, yet still fall far short of its intentions because of faulty coordination of its efforts within and across agency lines."

The following examples of past management challenges identified by our office and the Government Accountability Office (GAO) illustrate how EPA cannot fully address the goals of NEPA due to ineffective, segregated coordination efforts.

Water and Wastewater Infrastructure According to some studies, local communities will need to spend up to \$400 billion over the next 20 years to maintain and improve clean water infrastructure.² EPA's Clean Water and Drinking Water State Revolving Funds received about \$1.4 billion in federal capitalization grants in FY 2009.³ Congress added \$6 billion to these funds through the ARRA. The U.S. Departments of Housing

¹ EPA OIG, *National Environmental Policy and Quadrennial Review Needed*, Report No. 10-P-0140, June 8, 2010.

² Clean Water Funding Network Website,

http://cleanwaterfunding.org/index.php?option=com_content&view=article&id=51&Itemid=58.

³ U.S. EPA, *Drinking Water State Revolving Fund Allotments*; U.S. EPA, *Clean Water SRF Federal Capitalization Grants by Federal Fiscal Year of Award by State*.

and Urban Development and Agriculture also provided grant and loan assistance for water and wastewater infrastructure of about \$2 billion in FY 2006⁴ and received funding through the ARRA. These programs are small in relation to the funding gap and are not part of a comprehensive investment strategy to address water infrastructure needs. The federal government does not have a national approach to bridging the water and wastewater infrastructure gap. Since EPA is primarily responsible for administering the Clean Water Act and Safe Drinking Water Act, it should take the lead in organizing a coherent federal strategy within the limits of its statutory authorities and responsibilities. A comprehensive approach to bridging the water and wastewater infrastructure gap would systematically assess the investment requirements, alert the public and Congress of unfunded liabilities and risks, and work with other federal agencies, States and local governments to organize resources to meet needs.

Greenhouse Gases (GHGs) - In October 2009, the GAO recommended developing a national strategy for climate change.⁵ In October 2010, the White House interagency task force on climate change adaptation issued a final report that noted "significant gaps in the U.S. government's approach to climate change adaptation and building resilience."⁶ Among the gaps the report noted were a unified strategic vision and approach; coordinated efforts across state, local, and federal lines; and coherent research programs to assess regional effects. In January 2011, EPA initiated the Cross-EPA Climate Change Adaptation Planning Work Group to develop and implement a climate change adaptation plan for EPA.⁷ EPA relies on multiagency research organizations⁸ for the information and tools to help address GHGs,⁹ and to accelerate the development of new and advanced GHG reduction technologies.¹⁰ Consequently, EPA has limited control over the content, conduct, and timing of this research. The FY 2012 President's Budget shows that EPA is one of 13 departments and agencies that contribute research to the U.S. Global Change Research Program¹¹ to improve understanding of the science of climate change and its

⁴ U.S. Department of Agriculture, Rural Development, Water and Environmental Programs, *Annual Activity Report - FY 2006*, page 6.

⁵ GAO, *Climate Change Adaptation: Strategic Federal Planning Could Help Government Officials Make More Informed Decisions*, GAO-10-113, October 2009.

⁶ White House Council on Environmental Quality, *Progress Report of the Interagency Climate Change Adaptation Task Force: Recommended Actions in Support of a National Climate Change Adaptation Strategy*, October 5, 2010.

⁷ EPA, Memorandum from Louise Wise, EPA Acting Associate Administrator for Policy, *Establishment of Cross-EPA Climate Change Adaptation Planning Work Group & Call for Work Group Member Nominations*, January 13, 2011.

⁸ EPA relies on the U.S. Global Change Research Program and the Climate Change Technology Program to understand better the effects and risks of climate change and to develop new technologies to reduce GHG emissions. EPA information on climate change regulatory initiatives, policies, and actions, including EPA's *Performance and Accountability Report for Fiscal Year 2009*, November 16, 2009.

⁹ EPA OIG, *EPA Needs a Comprehensive Research Plan and Policies to Fulfill its Emerging Climate Change Role*, Report No. 09-P-0089, February 2, 2009; Pielke, Roger A., Jr., "Scientific Information and Global Change Policymaking," *Climate Change* 28: 315-19, 1994.

¹⁰ C-Span video archives, EPA Administrator's Address to the National Press Club on the Agency's Key Priorities, March 8, 2010, at 00:24:04 and 00:25:48.

¹¹ U.S. Global Change Research Program website, *Participating Departments and Agencies* <http://globalchange.gov/agencies>.

potential impacts.¹² EPA recognizes that it needs creativity and innovation, among other things, from all stakeholders to meet GHG challenges,¹³ and that is beyond EPA's direct control.¹⁴

Water Ecosystems – Chesapeake Bay - EPA participates in interagency efforts to solve complex environmental challenges in large coastal freshwater and marine ecosystems.¹⁵ A joint 2006 report by our office and the U.S. Department of Agriculture OIG on the Chesapeake Bay noted that while local farming associations support clean-up efforts, they oppose granting EPA authority to control nonpoint source pollution entering the watershed. This creates an opportunity for the U.S. Department of Agriculture to assist EPA in working with local farming communities surrounding the Bay.

US Mexico Border Water Program - In March 2011, GAO issued its first annual report to Congress identifying federal programs, agencies, offices, and initiatives, within departments or government-wide, that have similar or overlapping goals or activities.¹⁶ The report described how fragmented federal efforts to meet water needs in the U.S.-Mexico border region have resulted in an administrative burden, redundant activities, and an overall inefficient use of resources. GAO found that seven federal agencies, including EPA, that are active in the border region obligated at least \$1.4 billion from FYs 2000 through 2008 to fund numerous projects in the region, but their efforts are ineffective because they have not comprehensively assessed the needs of the region. GAO suggested that Congress require federal agencies develop a task force in partnership with state and local officials to leverage collective resources and establish compatible and coordinated policies across relevant agencies.

These complex environmental issues show how EPA needs to continually work to improve external coordination with federal agencies and others with which it shares environmental protection responsibilities. However, as noted in the *Environmental Law Reporter*, "Interagency coordination concerning the environment is uneven at best."¹⁷ The implementation of a national environmental policy could reduce or eliminate federal agencies' duplication, overlap, or fragmentation, and help agencies more efficiently and effectively address environmental problems, while providing the federal government with cost-saving opportunities. Our research

¹² U.S. Global Change Research Program website, "About/Program Overview"
<http://globalchange.gov/about/overview>.

¹³ C-Span2 video archives, Administrator's address to the National Press Club on the Agency's key priorities, March 8, 2010, at 00:24:04 and 00:25:48.

¹⁴ DOE, U.S. Climate Change Technology Program, *Vision and Framework for Strategy and Planning*, Report No. DOE/PI-0005, September 2006.

¹⁵ We evaluated EPA's attempts to resolve the environmental challenges in these water bodies in several reports, including: *EPA Needs to Accelerate Adoption of Numeric Nutrient Water Quality Standards*, Report No. 09-P-0223, August 26, 2009; *EPA Needs a Cohesive Plan to Clean Up the Great Lakes Areas of Concern*, Report No. 09-P-0231, September 14, 2009; and several reports on the Chesapeake Bay that can be found at <http://www.epa.gov/oig/reports/chesapeake.htm>.

¹⁶ GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP, March 2011.

¹⁷ *Environmental Law Reporter News & Analysis*, Special Issue: Agenda for a Sustainable America, National Governance: Still Stumbling Toward Sustainability, 39 *Env'tl. L. Rep. News & Analysis* 10321 (April 2009).

has found a push for developing national strategies related to various environmental aspects, including invasive species, sustainable development, and environmental justice.

Given the absence of a national environmental policy, there are a number of near-term corrective actions that EPA could take to coalesce various environmental stakeholder efforts. The EPA Administrator could send a letter to stakeholder groups asking for their insight on areas a national environmental policy should address. Next, EPA could form study groups to address key concepts, topics, and/or missions relevant to a national environmental policy. The EPA Administrator could send a letter to stakeholder organizations encouraging participation in the interagency groups. EPA's study groups could then meet regularly and develop position papers on their respective topics. Position papers could identify shared goals, overlapping/duplicative programs, strategies to attain goals, and measures to assess progress. Currently, EPA has ad hoc interagency workgroups – such as that between EPA and the U.S. Departments of Transportation and Housing and Urban Development to create a framework to foster sustainable communities – but EPA lacks an overall coordinated strategy and goals that integrate these efforts with other stakeholder activities. Moreover, Congress should provide EPA and other federal agencies the capacity to identify and manage environmental problems of national significance. EPA should work with Congress and the Administration to examine ways to leverage resources expended to various, insular environmental protection efforts.

Oversight of Delegations to States

EPA's oversight of state programs is a key management challenge. GAO and our office have reported that EPA has made some progress in this area; however, the effectiveness of Agency oversight has a number of limitations.

To accomplish its mission to protect human health and the environment, EPA develops regulations and establishes programs that implement environmental laws. Many of the federal statutes establish federal and state regulatory programs in which states are given the opportunity to enact and enforce such laws, meeting minimum federal criteria, to achieve the regulatory objectives which Congress has established. As such, EPA may authorize state, local, or tribal governments to implement these laws when they request authorization and EPA deems the agency capable of operating the program consistent with federal standards. EPA relies heavily on authorized state, and tribal agencies to obtain performance data and to implement compliance and enforcement programs. In its FY 2007 Performance and Accountability Report, EPA stated that it delegated the responsibility for issuing permits and for monitoring and enforcing compliance to the states and tribes.

EPA does not abrogate its oversight responsibility when it has delegated enforcement responsibility. Federal intent is to ensure national minimum level environmental protection standards. In addition, federal requirements establish consistency for businesses and within industries nationwide. States' discretion adds flexibility to address specific circumstances and local issues, but joint implementation and enforcement leads to special challenges in interpretations, strategies, and priorities. Therefore, EPA performs oversight of state, local, and tribal programs to provide reasonable assurance that they achieve national goals.

Improving EPA-state relationships is a priority for EPA,¹⁸ and EPA has begun to improve its oversight by implementing the State Review Framework.¹⁹ However, GAO reported that while EPA has made substantial progress in improving priority setting and enforcement planning with states, its oversight needed further enhancement. The framework is intended to provide a consistent approach for overseeing programs and identifying weaknesses and areas for improvement, but EPA has not implemented it in a consistent manner. For example, evaluations of the State Review Framework show that EPA has limited ability to determine whether states are performing appropriate enforcement in a timely manner, and whether penalties are applied to environmental violators in a fair and consistent manner within and among states. In response to these findings, EPA made changes to the State Review Framework and initiated a Clean Water Act Enforcement Action Plan, which among other things is aimed at strengthening Agency oversight of state water quality compliance and enforcement.

We have continued our work on this topic over the past year, and our recent reports demonstrate that this challenge persists. Two key factors limiting EPA's knowledge about state programs are (1) data limitations and (2) inadequate oversight of state activities.

- *Data Limitations*—Limitations in the availability, quality, and robustness of program implementation and effectiveness data, and limited Agency resources to independently obtain such data, prevent EPA from ensuring that the intent of the law is met. Our work this year found issues with two federal data systems: the Safe Drinking Water Information System and the Resource Conservation and Recovery Act (RCRA) Information System (RCRAInfo).
 - We found that EPA could not accurately assess the risk of public water systems delivering contaminated drinking water from emergency facilities because of limitations in Safe Drinking Water Information System data management. EPA and state officials we interviewed said they were unaware of instances similar to the situation we reported on in Illinois. However, they also stated that they currently have no way to know whether an emergency facility had been turned on without notice. There is no federal regulatory requirement for EPA or states to oversee or monitor emergency facilities. As a result, neither EPA nor the states know the amount of risk that public water system customers may face from misuse of water from emergency facilities.²⁰
 - We also found that the RCRAInfo data that track hazardous waste handlers and the shipment and receipt of hazardous waste contain errors and miss source documentation. These conditions call into question the quality and

¹⁸ EPA, Administrator Lisa Jackson's Seven Priorities for EPA's Future, <http://blog.epa.gov/administrator/2010/01/12/seven-priorities-for-epas-future/>.

¹⁹ EPA, State Review Framework, <http://www.epa.gov/oecaerth/state/srf/index.html>.

²⁰ EPA OIG, *EPA Lacks Internal Controls to Prevent Misuse of Emergency Drinking Water Facilities*, Report No. 11-P-0001, October 12, 2010.

reliability of data within the RCRAInfo system, as well as any resulting reporting.²¹

- *Inadequate Oversight*—Oversight of state activities requires that EPA establish national baselines that state programs must meet, and monitor state programs to determine whether they meet federal standards. Our work identified the absence of national baselines and a lack of robust state oversight with respect to the Clean Water Act, Superfund program, and RCRA.
 - EPA's authorizing memoranda of agreement with states are critical common denominators for state-authorized programs and should represent a common, national baseline. We found that EPA and states have outdated and inconsistent state agreements under the National Pollutant Discharge Elimination System. EPA headquarters does not hold EPA regional or state offices accountable for updating their memoranda of agreement when necessary. Instead, EPA relies on an inconsistent variety of other planning and management mechanisms to exercise control over state programs. Without current, written agreements with all authorized states, EPA cannot ensure Agency management control and effective oversight over this state-administered national program.²²
 - Long-term monitoring of the ground water is necessary to ensure that the Superfund remedial action remains protective of human health and the environment. However, our work found that the State of Pennsylvania did not collect ground water samples from the Bruin Lagoon Superfund Site for 6 years, from 2001 to 2007. EPA Region 3 managers told us they made a deliberate but undocumented decision to not use oversight authority to require the state to conduct ground water sampling at the site. In June 2007, Pennsylvania resumed sampling ground water at the site. The Region's 2009 Five-Year Review, which included these results, indicated that the site was protective. Nonetheless, gaps in long-term monitoring may result in a failure to detect conditions that indicate that a cleanup remedy is not protecting human health and the environment.²³
 - RCRA requires EPA to provide oversight of sites where cleanup authority is delegated to states. In addition, EPA's Public Involvement Policy encourages EPA staff and managers to ensure that decision-making processes are open and accessible. Our office received a Hotline complaint from Citizen Action New Mexico alleging that the New Mexico Environment Department mismanaged the Sandia National Laboratory's Mixed Waste Landfill

²¹ EPA OIG, *EPA Could Improve RCRAInfo Data Quality and System Development*, Report No. 11-P-0096, February 7, 2011.

²² EPA OIG, *EPA Should Revise Outdated or Inconsistent EPA-State Memoranda of Agreement*, Report No. 10-P-0224, September 14, 2010.

²³ EPA OIG, *EPA Should Improve Oversight of Long-term Monitoring at Bruin Lagoon Superfund Site in Pennsylvania*, Report No. 10-P-0217, September 8, 2010.

monitoring wells. We found that Region 6's documentation of its oversight was insufficient. Therefore, we could not determine whether the allegations had merit or whether New Mexico Environment Department's actions and decisions were technically sound.²⁴

While EPA has renewed its attention on the oversight of programs delegated to states, much work remains. The Agency must address limitations in the availability, quality, and robustness of program data, and limitations in implementation across environmental statutes to provide effective oversight. Effective oversight of delegations to states also requires an organizational structure capable of maintaining clear lines of accountability. Our ongoing, national review of issues related to this management challenge focuses on how EPA's organizational structure may impede its ability to oversee state Clean Air Act (CAA), Clean Water Act, and RCRA enforcement programs. If EPA does not adequately oversee states' authorized enforcement programs, it cannot hold states accountable for meeting their enforcement responsibilities. As a result, EPA would not be able to ensure Americans that states maintain a baseline level of environmental protection.

Safe Reuse of Contaminated Sites

In the last decade, EPA has increasingly emphasized the reuse of contaminated or once-contaminated properties. In its 2011–2015 Strategic Plan, EPA announced a shift in the definition of success at a Superfund site from “construction complete” of a site cleanup to when a site is “ready for anticipated use.”²⁵ Recently, the Agency identified thousands of contaminated sites that it encourages developers and “anyone interested” to use for building renewable energy (e.g., wind, solar, biomass) facilities.²⁶ EPA has successfully turned some actual or perceived problem sites into properties that reinvigorated communities and created jobs.²⁷ Contaminated properties have become viable again as retail stores, public recreation areas, housing complexes, sports stadiums, and commercial office space.

Recycling and reusing contaminated property can produce measured economic benefits, provide environmental benefits that result from preserving undeveloped lands, and improve quality of life for communities. While EPA's recycle and reuse goals are notable and may have made a positive contribution in difficult economic times, EPA's duty is to ensure that contaminated sites are safe for humans and the environment. EPA faces significant and increasing challenges in this area due to: (1) the common practice of not removing all sources of contamination from hazardous sites; (2) a regulatory structure that places key responsibilities for monitoring and enforcing the long-term safety of contaminated sites on non-EPA parties that may lack necessary resources, information, and skill; (3) changes in risks as site conditions change over time; and (4) weaknesses in EPA's oversight of the long-term safety of sites.

Many contaminated sites, such as Superfund sites, must be monitored in the long term (i.e., 30 years or more) because known contamination is often not fully removed or remediated,

²⁴ EPA OIG, *Region 6 Needs to Improve Oversight Practices*, Report No. 10-P-0100, April 14, 2010.

²⁵ EPA, FY 2011–2015 Strategic Plan, page 38, <http://www.epa.gov/planandbudget/strategicplan.html>.

²⁶ EPA website, “RE-Powering America's Land,” <http://www.epa.gov/renewableenergyland/>.

²⁷ EPA website, “Superfund Redevelopment,” <http://www.epa.gov/superfund/programs/recycle/index.html>.

and controls that prevent prohibited activities at sites must be maintained and enforced. New controls or monitoring may be required if previously undetected or new contaminants emerge,²⁸ which can be a direct result of site changes brought about by reuse. The lack of effective long-term monitoring and enforcement of reuse controls at contaminated sites can pose significant risks to human health and the environment. The New York Department of Environmental Conservation released a report in March 2009 listing hundreds of "old" Superfund, Brownfields, and other cleanup cases that were reopened to investigate potential new threats from vapor intrusion.²⁹ Improvements in analytic techniques and knowledge gained from site investigations has increased awareness of soil vapor as a medium of concern and of the potential for human exposure from the soil vapor intrusion pathway.³⁰ However, EPA has yet to finalize guidance on assessing or addressing potential risks from vapor intrusion and does not estimate that it will do so until 2012.³¹

EPA has acknowledged challenges to ensuring the long-term safety of contaminated sites.³² In 2005, the Agency released a report that examined a range of long-term stewardship issues³³ and challenges it faced, as well as the role of non-EPA parties (e.g., states, tribes, and other federal agencies) in ensuring long-term safety of contaminated sites. EPA identified five categories of challenges: (1) understanding roles and responsibilities; (2) implementing and enforcing institutional controls;³⁴ (3) implementing, enforcing, and monitoring engineering controls;³⁵ (4) estimating long-term stewardship costs and obtaining funding and resources; and (5) managing and communicating information to prevent breaches of controls and ensuring consistent information in databases. The report made a number of recommendations that generally rely on partnerships and relationships to share, communicate, and exchange necessary information on roles, responsibilities, and costs associated with long-term stewardship responsibilities. The report encouraged non-EPA parties to adhere to legal provisions for implementing institutional controls, where applicable (e.g., Uniform Environmental Covenants Act).³⁶

²⁸ EPA, *Brownfields Technology Primer: Vapor Intrusion Considerations for Redevelopment*, EPA 542-R-08001, March 2008.

²⁹ New York State Department of Environmental Conservation, *Status of Vapor Intrusion Evaluations at Legacy Sites*, February 11, 2009; New York State Department of Environmental Conservation, *Strategy for Evaluating Soil Vapor Intrusion at Remedial Sites in New York*, DER-13, October 18, 2006.

³⁰ New York State Department of Environmental Conservation, *Strategy for Evaluating Soil Vapor Intrusion at Remedial Sites in New York*, DER-13, October 18, 2006.

³¹ EPA OIG, *Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks*, Report No. 10-P-0042, December 14, 2009.

³² EPA, *Long-Term Stewardship: Ensuring Environmental Site Cleanups Remain Protective Over Time: Challenges and Opportunities Facing EPA's Cleanup Programs*, EPA 500-R-05-001, September 2005.

³³ EPA generally characterizes long-term stewardship activities as activities that ensure (1) ongoing protection of human health and the environment, (2) the integrity of remedial or corrective actions so they continue to operate properly, and (3) the ability of people to reuse sites in a safe and protective manner.

³⁴ Institutional controls are legal or administrative controls intended to minimize the potential for human exposure to contamination by limiting land or resource use. A local government is often the only entity that has legal authority to implement certain types of institutional controls (e.g., zoning restrictions).

³⁵ Engineering controls are the engineered physical barriers or structures designed to monitor and prevent or limit exposure to the contamination.

³⁶ The Uniform Environmental Covenants Act confirms the validity of environmental covenants (i.e., institutional controls/land use controls) by ensuring that land use restrictions, mandated environmental monitoring requirements, and a wide range of common engineering controls designed to control the potential environmental risk of residual contamination will be reflected in land records and effectively enforced over time. Currently, about

In response to a GAO report on institutional controls, EPA has also taken some steps to better manage the implementation of institutional controls at Superfund sites.³⁷ However, many sites remain for which the implementation status of institutional controls is not available.³⁸ In 2010, EPA completed an internal evaluation to determine whether the required and necessary institutional controls were in place at national priority Superfund sites.³⁹ EPA's review disclosed that controls to protect human health were not in place at a number of sites they reviewed. EPA made recommendations to improve the implementation of these controls to protect human health at sites where risks remained. In November 2010, EPA also revised Agency guidance and sought public comment on its "interim final guidance," *Institutional Controls: A Guide to Planning, Implementing, Maintaining, and Enforcing Institutional Controls at Contaminated Sites*.⁴⁰

Our work has identified a number of additional challenges that EPA faces in ensuring effective long-term monitoring or stewardship of contaminated sites. We found that some states were not financially prepared to take over their long-term monitoring and maintenance responsibilities for Superfund cleanups.⁴¹ In 2010, Michigan's Department of Environmental Quality believed it would run out of money for its hazardous waste cleanup program.⁴² We have reported on state failures to enforce cleanup agreements,⁴³ EPA's failure to follow Superfund site deletion guidance⁴⁴ and Five-Year Review procedures,⁴⁵ and EPA's lack of systems to determine whether a site cleanup is noncompliant.⁴⁶

We found that EPA relies on the self-certification of a third-party environmental professional to determine whether statutorily required environmental due diligence has been performed at Brownfields sites funded by EPA grants. In all sample environmental due diligence investigations we reviewed, environmental professional certifications failed to meet federal requirements and therefore failed to assure that a proper environmental investigation occurred.⁴⁷

one-half of U.S. states have passed a Uniform Environmental Covenants Act. The Uniform Environmental Covenants Act was drafted by the National Conference of Commissioners on Uniform State Laws in August 2003.

³⁷ GAO, *Hazardous Waste Sites: Improved Effectiveness of Controls at Sites Could Better Protect the Public*, GAO 05-163 January 28, 2005. See also <http://www.epa.gov/superfund/policy/ic/index.htm>.

³⁸ EPA website, "Published Institutional Controls,"

http://www.epa.gov/ictsw07/public/export/regionalReport/ALL_REGIONS_IC_REPORTS.HTM.

³⁹ EPA, "Summary of Program Evaluations for FY 2010 Annual Performance Report,"

http://www.epa.gov/planandbudget/Summary_of_Prog_Evals_for_FY_10_APR.pdf.

⁴⁰ *Federal Register*, Environmental Protection Agency, "Guidance on Planning, Implementing, Maintaining, and Enforcing Institutional Controls at Contaminated Sites," November 30, 2010.

⁴¹ EPA OIG, *Some States Cannot Address Assessment Needs and Face Limitations in Meeting Future Superfund Cleanup Requirements*, Report No. 2004-P-00027, September 1, 2004.

⁴² *The Detroit News*, "Michigan Out of Cash to Clean Up Toxic Sites," March 4, 2010.

⁴³ EPA OIG, *Improved Controls Would Reduce Superfund Backlogs*, Report No. 08-P-0169, June 2, 2008.

⁴⁴ EPA OIG, *EPA Decisions to Delete Superfund Sites Should Undergo Quality Assurance Review*, Report No. 08-P-0235, August 20, 2008.

⁴⁵ EPA OIG, *EPA Has Improved Five-Year Review Process for Superfund Remedies, But Further Steps Needed*, Report No. 2007-P-00006, December 5, 2006; EPA OIG, *EPA's Safety Determination for Delatte Metals Superfund Site Was Unsupported*, Report No. 09-P-0029, November 19, 2008.

⁴⁶ EPA OIG, *EPA Needs to Track Compliance with Superfund Cleanup Requirements*, Report No. 08-P-0141, April 28, 2008.

⁴⁷ EPA OIG, *EPA Must Implement Controls to Ensure Proper Investigations Are Conducted at Brownfields Sites*, Report No. 11-P-0107, February 14, 2011.

EPA also conducts no oversight of the requirement to meet “continuing obligations” at Brownfields properties funded by EPA. Continuing obligations include land use controls and institutional controls designed to prevent unacceptable uses of a contaminated properties.⁴⁸ Weaknesses or lapses in meeting environmental due diligence or continuing obligations requirements can result in undetected or undisclosed contamination and inappropriate land use.

Our January 2010 report found new contamination at a delisted Superfund site in Delaware where EPA conducted informal and undocumented oversight of the site reuse plans.⁴⁹ The current site owner had nearly finalized plans for reusing the site for public recreation but in a manner inconsistent with the site cleanup plan. EPA had not kept current with the current owner’s site reuse plans. In addition, EPA did not issue a Ready for Reuse (RfR) determination for this site because it believed it was not necessary. An RfR could potentially address some of the internal challenges to ensuring safe reuse of contaminated sites. However, there is no requirement to complete RfRs, and they have been treated as discretionary. Nonetheless, EPA has held up RfRs as providing the necessary “limitations that need to be followed to ensure [site] protectiveness.” An RfR was not issued for the site reviewed in our January 2010 report because site managers believed an RfR was only needed to aid the real estate market. At another Superfund site, we also found that EPA did not take action to address a 6-year gap in environmental sampling that the state should have conducted.⁵⁰ This type of oversight weakness can result in a failure to detect conditions that indicate that a cleanup remedy does not protect human health and the environment.

EPA’s management of the long-term oversight and monitoring requirements for the safe reuse of contaminated sites has lagged behind its marketing of site reuse opportunities and showcasing of successes. Only in the last several years has EPA focused attention on the long-term stewardship aspects of contaminated sites across its cleanup programs. This gap promises to increase substantially as EPA continues to heavily promote the reuse of contaminated sites without investing in tools needed to ensure the safe, long-term use of these sites. Many Superfund sites are now moving to the long-term monitoring phase, with more sites expected to do so in the future.⁵¹ EPA’s December 2008 report on future Superfund workload needs states that the “post-construction” workload will require the greatest increase in coming years and will increase by 89 percent over the current full-time equivalent distribution.⁵² EPA will continually need to assess challenges it faces, as well as challenges among the diverse group of non-EPA parties it must work with, to ensure that sites are safely reused. In its assessments, EPA should consider new or expanded authorities and regulations, new organizations, measures and goals, new methods of sharing information, and dedicated funding and resources for long-term stewardship activities.

⁴⁸ EPA, *Brownfields Fact Sheet, EPA Brownfields Grants CERCLA Liability and All Appropriate Inquiries*, EPA 560-F-09-026, April 2009.

⁴⁹ EPA OIG, *Changes in Conditions at Wildcat Landfill Superfund Site in Delaware Call for Increased EPA Oversight*, Report No. 10-P-0055, January 27, 2010.

⁵⁰ EPA OIG, *EPA Should Improve Oversight of Long-term Monitoring at Bruin Lagoon Superfund Site in Pennsylvania*, Report No. 10-P-0217, September 8, 2010.

⁵¹ EPA, *Long-Term Stewardship: Ensuring Environmental Site Cleanups Remain Protective Over Time: Challenges and Opportunities Facing EPA’s Cleanup Programs*, EPA 500-R-05-001, September 2005.

⁵² EPA, *Superfund Workload Assessment Report*, OSWER Document 9200-2-81, December 2, 2008. Post-construction workload can refer to all activities after a cleanup remedy is constructed (including long-term monitoring and reuse activities).

In 2009, EPA agreed with this challenge.⁵³ In its 2010 response to this challenge, EPA stated that it had several tools it actively promotes to ensure appropriate and safe reuse of sites, and that it will continue to explore new tools and approaches to sharing risk information to ensure that sites remain safe in their future uses.⁵⁴ EPA stated that its Superfund Five-Year Review process addresses the vast majority of “emerging contaminant” situations observed at Superfund National Priority List sites and conveyed that the Five-Year Review process worked well. Six specific “tools” EPA said it promotes to ensure appropriate and safe reuse of sites are: (1) RfR determinations, (2) comfort and status letters, (3) prospective purchaser inquiry calls, (4) EPA-funded reuse planning offers, (5) site reuse fact sheets, and (6) Comprehensive Environmental Response, Compensation and Liability Information System data on institutional controls. EPA has recently taken significant steps to address and remedy vulnerabilities in the Five-Year Review process. Several actions have been taken in response to our findings. In 2009, EPA completed a review of the quality of Five-Year Reviews. The Agency identified many reviews that needed additional support and some that needed modified safety determinations. Additional actions such as modifying the Agency’s 2001 guidance on Five-Year Reviews may be forthcoming.

We will review and recognize EPA efforts to address the significant challenge of ensuring the long-term safety of contaminated sites. Our work and the Agency’s work have shown that EPA can address these internal challenges through improved oversight and management of activities inherent to successful long-term stewardship of contaminated sites. However, successful long-term stewardship also depends on having properly resourced and informed non-EPA parties, who have ongoing access to current information, are actively involved in compliance, and conduct appropriate due diligence and oversight of contaminated sites. EPA is highly limited in addressing this challenge when state or local governments with primary responsibility for addressing many long-term safety issues have neither the money nor the will to do so. The lessons from recent issues such as vapor intrusion show that site reuse can generate new environmental risks. In its 2011–2015 Strategic Plan, EPA states:

Complications can arise when new scientific information concerning contaminants at a site suggests that a risk assessment that was protective when a remedy was selected is no longer protective given the contaminant levels remaining at a site and their potential exposure pathways. . . . EPA must incorporate emerging science into decision making to maintain its commitment to provide permanent solutions.”⁵⁵

EPA needs new strategies that take the Agency beyond merely encouraging non-EPA parties to fulfill requirements and focus on providing EPA and other parties the information, resources, and authorities to ensure long-term safety of reused sites.

⁵³ EPA, *Performance and Accountability Report for Fiscal Year 2009*, section IV, page 43.

⁵⁴ EPA, *Fiscal Year 2010 Agency Financial Report*, section III, pages 37–40.

⁵⁵ EPA, *FY 2011–2015 Strategic Plan*, page 25.

Limited Capability to Respond to Cyber Security Attacks

Continuing from the management challenge from last year, EPA still has a limited capacity to effectively respond to external network threats despite reports that Advanced Persistent Threats (APTs) designed to steal or modify information without detection are becoming more prevalent throughout government.⁵⁶ In addition, the Agency does not have an overarching understanding of system exploitations from an insider threat perspective. This type of threat can come from a user, through unauthorized physical access by an individual, through a breach due to access and weak controls via contract facility connections, or from insertion of malware that allows for unauthorized remote access.

Our ongoing analysis shows that the Agency still faces challenges with respect to protecting against APT-type attacks. Although the Agency has deployed new tools to improve its architecture, these tools raise new security challenges and, therefore, concerns by our office. EPA deployed Symantec Endpoint Protection in an attempt to identify malware on Agency systems. The full extent of this deployment and the ability of the Agency to rapidly correlate the reporting of system vulnerabilities are limited. The Agency implemented "BigFix" servers for managing patch and software updates. While use of these systems is beneficial, the systems introduce security concerns because a single compromise of the BigFix system could modify computers throughout the EPA domain. Some of these BigFix servers were reported to have been compromised this year.

The Agency does not have an Agency-wide governance of its critical infrastructure designed to identify critical components, systems, and data, and any associated back-up or redundant systems, so that when a compromise occurs, the Agency and our office can quickly engage key stakeholders, assess the significance of the threat, and take appropriate actions. The Agency recently had one of these designated "critical" systems reported as compromised. However, due to a lack of critical system redundancy, investigators responding to the an incident were unable to take the systems offline to preserve evidence. This failure to provide for critical redundant capability exist at the wide area network (WAN) and local area network levels of EPA infrastructure.

EPA is in the process of transferring to the U.S. General Services Administration's Managed Trusted IP Services (MTIPS) contract. MTIPS is reported to provide services such as intrusion detection, intrusion protection, incident response, managed firewall, vulnerability scanning, antivirus management, and managed e-authentication. Integration of these services into the control and oversight of EPA's Office of Environmental Information (OEI) has not been fully realized or understood. When we asked OEI staff whether the Agency and our office would have access to the day-to-day EPA's networks security logging data controlled by the MTIPS contractor, staff had no ready answers. OEI staff responded that the focus was on transition and that security was a secondary concern. This response is concerning given that we noted last year that EPA could not identify the owners of approximately 10 percent of the Internet Protocol (IP) addresses that are potentially compromised due to an APT.⁵⁷ These compromised systems extend to every EPA regional office and headquarters. In September 2010, the Agency stopped

⁵⁶ *Federal Computer Week*, "Google Attacks: A Wake-up Call or Curtain Call for Agencies?" February 4, 2010.

⁵⁷ Electronic mail from EPA's Computer Security Incident Response Capability Center, April 6, 2010.

producing and or sharing this data with our office; thus, we do know whether EPA has remedied this situation.

Security of EPA's network greatly depends on ongoing public- and private-sector partnerships led by the United States Computer Emergency Readiness Team (US-CERT).⁵⁸ The mission of US-CERT is to protect the nation's Internet infrastructure and to coordinate national defense against and responses to cyber attacks.⁵⁹ Accordingly, it disseminates actionable cyber security information to EPA's Computer Security Incident Response Capability Center (CSIRC), whose goal is to protect EPA information assets and respond to actual and potential incidents.⁶⁰ The unknown origins of many cyber attacks and the complex ways they compromise data networks⁶¹ make this ongoing collaboration crucial to the security of EPA's network. Although US-CERT has been a key provider of cyber threat data or intelligence to the Agency, up until February 2011, EPA only had the Research Triangle Park point of presence (POP) monitored by US-CERT sensing equipment. While EPA was waiting on the WAN 2010 upgrade to install a sensor at its District of Columbia POP, US-CERT did not have visibility on an estimated 8,000–10,000 EPA personnel and contractors utilizing this POP for an extended period.

The management challenge issued in FY 2010 stated, "EPA's CSIRC is expected to have sufficient technical expertise and resources to coordinate rapid and highly skilled responses to incidents of malicious attacks on its network." To date, the staffing resources at CSIRC are limited and cannot provide the required information requested by our office. We are in discussions with OEI staff regarding procedures they should follow in handling requests from our office that exceed their staffing resources.⁶²

EPA is working toward acquiring, training, and deploying forensic tools and experienced technical specialists to analyze and determine whether attackers have gained entry to EPA's network systems, what they did while within EPA's domain space, what information was compromised, and what information may have been maliciously removed from the EPA network. Our office is working with OEI on a memorandum of understanding to define roles and responsibilities for our two offices in response to intrusion activities associated with EPA's networks. The implementation of this memorandum of understanding and the information gathered by the Agency's information technology staff will benefit and support not only EPA's operational mission, but our investigative mission as well, specifically as it relates to the preservation of the crime scene associated with intrusion events.

To meet this challenge to EPA's network head on, EPA leadership must understand the threats to EPA's confidential business information and the importance of minimizing those risks. Further, the Chief Information Officer and the Office of Technology Operations and Planning leadership should carefully study the classified intelligence materials provided to them regarding threats against government domains and disseminate the information to necessary offices. These intelligence materials are especially critical as EPA's network is reportedly compromised. Last

⁵⁸ US-CERT website, <http://www.us-cert.gov/aboutus.html>.

⁵⁹ US-CERT website, <http://www.us-cert.gov/aboutus.html>.

⁶⁰ EPA intranet, http://cfint.rtpnc.epa.gov/otop/security/csirc/about_us.cfm.

⁶¹ *CNN.com/technology*, "U.S. Government Sites among Those Hit by Cyber Attack," July 8, 2009.

⁶² Reference e-mail, OEI to OIG, dated March 12, 2011, 10:11 AM.

year, before reporting to our office stopped, there were approximately 7,800 EPA systems identified as potentially communicating to known hostile IPs or domains. We note that not all 7,800 systems were compromised, but we do not know which ones were compromised.

Further, EPA leadership must clearly articulate to Congress the costs of protecting its infrastructure and seek from Congress sufficient funds for the development of a real-time capability to identify and analyze attacks against EPA's computer and network systems.

EPA also should compile a better inventory of network assets, including intellectual properties, and identify where data sit on its network. EPA should also deploy a better method of identifying and authenticating individuals allowed to access EPA's network. Only then will EPA be able to execute a strategy that effectively protects its resources, infrastructure, and intellectual property from individuals and entities that intend to do harm.

In addition, EPA should aggressively address previously reported security weaknesses to strengthen its ability to detect and respond to network attacks.⁶³ In particular, EPA should:

- Implement a process that tracks IP address assignments and documents the origin of all active IP addresses so responders can take quicker steps to minimize harm caused by APTs.⁶⁴
- Implement a vulnerability management program to proactively identify and correct commonly known vulnerabilities before they can be exploited.⁶⁵
- Communicate high-risk vulnerability alerts more effectively throughout the Agency and follow up with responsible parties to ensure satisfactory remediation.⁶⁶
- Verify that EPA's numerous information security officers are adequately skilled to conduct regular vulnerability tests of their respective local area networks and systems, as well as successfully recognize and remediate high and medium risks in a uniform and acceptable manner.⁶⁷

⁶³ EPA OIG, *Project Delays Prevent EPA from Implementing an Agency-wide Information Security Vulnerability Management Program*, Report No. 09-P-0240, September 21, 2009.

⁶⁴ EPA OIG, *Management of EPA Headquarters Internet Protocol Addresses Needs Improvement*, Report No. 08-P-0273, September 23, 2008.

⁶⁵ EPA OIG, *Project Delays Prevent EPA from Implementing an Agency-wide Information Security Vulnerability Management Program*, Report No. 09-P-0240, September 21, 2009.

⁶⁶ EPA OIG, *EPA Needs to Strengthen Financial Database Security Oversight and Monitor Compliance*, Report No. 2007-P-00017, March 29, 2007.

⁶⁷ EPA OIG, *Results of Technical Network Vulnerability Assessment: Region 9*, Report No. 09-P-0052, December 9, 2008; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Radiation and Indoor Environments National Laboratory*, Report No. 09-P-0053, December 9, 2008; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Las Vegas Finance Center*, Report No. 09-P-0054, December 9, 2008; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Research Triangle Park Campus*, Report No. 09-P-0055, December 9, 2008; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA Headquarters*, Report No. 09-P-0097, February 23, 2009; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Great Lakes National Program Office*, Report No. 09-P-0185, June 30, 2009; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's National Computer Center*, Report No. 09-P-0186, June 30, 2009; EPA OIG, *Results of Technical Network Vulnerability Assessment: Region 8*, Report No. 09-P-0187, June 30, 2009; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Potomac Yard Buildings*, Report No. 09-P-0188, June 30, 2009; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's 1310 L Street Building*, Report No. 09-P-0189, June 30, 2009; EPA OIG, *Results of Technical Network Vulnerability*

- Take steps to improve the reliability of data used to assess the status of its information security program and posture with regard to known network threats.⁶⁸
- Train EPA's information security community on testing and documenting information systems security controls, and enhance the quality assurance process to verify that self-assessments evaluate all required security controls.⁶⁹
- Develop and implement comprehensive log review policies and procedures, establish a management control process to review the performance of the contractors conducting these reviews, and update and approve the WAN security plan and properly certify and accredit future significant WAN configuration changes prior to moving them into production.⁷⁰
- Develop and implement a network traffic analysis methodology to be used to identify abnormal network traffic.⁷¹
- Deploy a system of obtaining full network packet capture of all traffic within and traveling outside of its domain, to have the ability to historically understand cyber incidents that occur and any loss of sensitive data.

Taking these actions would enhance EPA's ability to effectively (1) identify what key data (intellectual, confidential, privacy) have been stolen, (2) determine collateral damage to the Agency's trusted business partners, (3) remediate threats as they occur, and (4) better defend its network domain. EPA's limitation in these areas is alarming, because a large-scale cyber attack could be as devastating to the U.S. economy and infrastructure as a terrorist bombing.⁷²

EPA's Framework for Assessing and Managing Chemical Risks

EPA's framework for assessing and managing chemical risks has not yet achieved the goal of protecting human health and the environment. In 1976, Congress passed the Toxic Substances Control Act (TSCA), authorizing EPA to collect information on, and to regulate the production and distribution of, chemicals. TSCA required EPA to (1) create an inventory of "existing chemicals" already in commerce, (2) regulate unreasonable risk from "new chemicals" introduced into commerce subsequent to the act, and (3) make health and safety

Assessment: EPA's Research Triangle Park Finance Center, Report No. 09-P-0227, August 31, 2009; EPA OIG, *Results of Technical Network Vulnerability Assessments: EPA's Andrew W. Breidenbach Environmental Research Center*, Report No. 10-P-0210, September 7, 2010; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Erlanger Building*, Report No. 10-P-0211, September 7, 2010; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Ronald Reagan Building*, Report No. 10-P-0212, September 7, 2010; EPA OIG, *Results of Technical Network Vulnerability Assessment: EPA's Region 4*, Report No. 10-P-0213, September 7, 2010.

⁶⁸ EPA OIG, *Self-reported Data Unreliable for Assessing EPA's Computer Security Program*, Report No. 10-P-0058, February 2, 2010.

⁶⁹ EPA OIG, *Improvements Needed in Key EPA Information System Security Practices*, Report No. 10-P-0146, June 15, 2010.

⁷⁰ EPA OIG, *Improvements Needed in EPA's Network Traffic Management Practices*, Report No. 11-P-0159, March 14, 2011.

⁷¹ EPA OIG, *Improvements Needed in EPA's Network Traffic Management Practices*, Report No. 11-P-0159, March 14, 2011.

⁷² *CNN.com/technology*, "U.S. at Risk of Cyber Attacks, Experts Say," August 18, 2008.

information available for examination while protecting manufacturers' confidential business information.

EPA's effectiveness in assessing and managing chemical risks is hampered in part by limitations on the Agency's authority to regulate chemicals under TSCA. When TSCA was enacted, it authorized the manufacture and use, without any evaluation, of all chemicals that were produced for commercial purposes in 1976 or earlier years. Thus, manufacturers of these grandfathered chemicals were not required to develop and produce data on toxicity and exposure, which are needed to properly and fully assess potential risks. Further compounding this problem, the statute never provided adequate authority for EPA to evaluate existing chemicals as new concerns arose or as new scientific information became available. As enforcement is critical to ensuring environmental protection, while TSCA authorizes EPA to conduct inspections, issue subpoenas, and impose civil penalties for violations, the statute lacks the broad information-gathering and enforcement provisions found in other major environmental protection statutes. For example, TSCA does not provide EPA the administrative authority to seek injunctive relief, issue administrative orders, collect samples, and quarantine and release chemical stocks.

On September 29, 2009, the Administration outlined core principles to strengthen U.S. chemical management laws. Administrator Jackson testified before Congress on December 2, 2009, on the need to revise and modernize TSCA. In the absence of new legislation, we found that EPA could better manage existing authorities. In 2010, we published a report on the New Chemicals Program that showed that EPA did not have integrated procedures and measures in place to ensure that new chemicals do not pose an unreasonable risk to human health and the environment.⁷³ We recommended that EPA better coordinate risk assessment and oversight activities by establishing a management plan that contains new goals and measures that demonstrate the results of EPA actions. Additionally, we recommended that EPA establish criteria for selecting chemicals or classes of chemicals for low-level exposure and cumulative risk assessments, and develop confidential business information classification criteria to improve EPA's transparency and information sharing. Finally, we recommended that EPA develop a management plan for Core TSCA enforcement that includes training, consistent enforcement strategies across regions for monitoring and inspection protocols, and a list of manufacturers and importers of chemicals for strategic targeting. The Agency agreed with our recommendations, and in November 2010, we accepted the Agency's corrective action plan outlining the steps it intends to take to address our recommendations.

EPA's framework for assessing and managing chemical risks from endocrine disruptors is also failing to show results. In August 1996, Congress passed both the Food Quality Protection Act and amendments to the Safe Drinking Water Act, calling for the screening and testing of chemicals and pesticides for possible endocrine-disrupting effects (i.e., adverse effects on the development of the brain and nervous system, the growth and function of the reproductive system, as well as the metabolism and blood-sugar levels). EPA established the Endocrine Disruption Screening Program in 1998. The Endocrine Disruption Screening Program was mandated to use validated methods for the screening and testing of chemicals to identify

⁷³ EPA OIG, *EPA Needs a Coordinated Plan to Oversee Its Toxic Substances Control Act Responsibilities*, Report No. 10-P-0066, February 17, 2010.

potential endocrine disruptors. In 2000, EPA estimated that approximately 87,000 chemicals would need to be screened for potential endocrine-disrupting effects. As of February 25, 2010, EPA issued test orders to industry for 67 pesticide active ingredients and high-production volume chemicals with some pesticide inert uses. Thus, 14 years after the passage of the Food Quality Protection Act and amendments to the Safe Drinking Water Act, EPA has yet to regulate the endocrine-disrupting effects of any chemicals.

Though we have not yet completed any additional reports on EPA's activities under TSCA, we have identified some potential challenges for the Agency. To address the unique properties of nanomaterials and to better address children's health concerns, revisions to EPA's regulations and management approaches may be necessary. In 2009, EPA launched a new initiative to enhance the Agency's current chemicals management program within the limits of existing authorities. Since then, EPA has proposed several new regulations under TSCA that may allow it to better address both children's health and nanomaterials. As EPA implements these steps to improve its management of chemical risks, it must institute sufficient internal controls to ensure the success of its efforts. Specifically, the Agency should create performance measures that demonstrate the impact and overall success in reaching the desired outcome. The Agency must also have a clear strategy that formalizes intra-agency coordination and prioritizes activities to maximize the impact of available resources in pursuit of its goals, ensuring that the most significant risk areas are addressed first.⁷⁴

⁷⁴ EPA OIG, *EPA's Endocrine Disruptor Screening Program Should Establish Management Controls to Ensure More Timely Results*, Report No. 11-P-0215, May 3, 2011.

Challenge #1 – Need for Greater Coordination of Environmental Efforts

Agency Response: The EPA maintains its position as originally stated in its April 20, 2010 response to the *Draft Special Report: National Environmental Policy and Quadrennial Review Needed*. The EPA's view is that a national environmental policy exists in the form of authorizing statutory goals and mandates in the National Environmental Policy Act. Further, the EPA and other federal agencies are already coordinating on high priority, complex issues.

For example, the agency routinely coordinates with federal, state and local funding partners to facilitate the delivery of often first time drinking water and wastewater services to small communities, while minimizing the administrative burden on them. Coordination, collaboration and leveraging resources in concert with program partners are key aspects of US-Mexico Border Water Infrastructure Program implementation throughout the project selection, development and construction phases. The agency, in coordination with its partners, uses a risk-based prioritization process to identify and fund border water infrastructure projects that will have the greatest public health and environmental benefits. Also, the EPA ensures that its resources are used efficiently through a program policy that stipulates the EPA construction grants be used only as a last resort after all other possible funding sources have been explored and the EPA funding is deemed essential to make affordable high priority projects that otherwise could not be implemented in communities that have limited institutional capacity. In doing so, the EPA ensures that project funding is necessary, is directed to the communities that are most in need, is coordinated across agencies and is not duplicative. The EPA will continue to partner, coordinate, and leverage resources as it implements the US-Mexico Border Water Infrastructure Program to address the significant public health and environmental needs along the border.

Additionally, the EPA is continuing to take the lead in working across the federal government and the water sector to close the water infrastructure gap and move the nation's water infrastructure to a more sustainable footing. In October of 2010, the EPA released its Clean Water and Drinking Water Sustainability Policy. The Policy represents the agency's efforts to bring focus to the issue and to define the focal points that will affect change to reduce the infrastructure gap. The Policy emphasizes: 1) the need for robust and effective planning for water infrastructure; 2) capacity development and effective utility management to enhance the sustainability of all aspects of water sector systems; and 3) integrating water infrastructure into cross sector planning efforts to foster the sustainability of our communities. The EPA is actively pursuing a suite of programs and activities in each of these areas, including efforts to encourage and work with state SRFs as they incorporate sustainability considerations into their programs.

The agency will continue its efforts to coordinate environmental issues across the federal government and state and local partners.

Challenge #2 – Oversight of Delegations to States

Agency Response: The EPA acknowledges that state oversight is a very complex and changeable arena. Through federal statutes, implementing regulations and program design, states are allowed flexibility in how they manage and implement environmental programs. Within the EPA, national program managers are directly responsible for state oversight of individual programs. The agency has committees, workgroups, special projects and initiatives to continuously improve agency programs delegated to states. Below are a few examples of these programs and the efforts made to enhance oversight or correct issues with state delegation.

Improving Oversight through Better Data Quality:

As OIG noted, having adequate data is important to the EPA's ability to understand and oversee state programs. The agency and its state partners continually look for ways to improve public health protection and data quality. The EPA is undergoing a comprehensive review of SDWIS/FED and

SDWIS/State as we develop the next generation of SDWIS, which is a key management tool for the drinking water program. In addition, the EPA is currently working with state representatives to develop standard definitions for facility availability codes in SDWIS and update standard operating procedures. To ensure that emergency wells are reviewed on an individual and recurring basis, we will issue guidance to states regarding reviewing emergency sources as part of state oversight programs, including sanitary surveys. This guidance will clarify that emergency sources should be reviewed on a recurring basis as part of routine state oversight.

Strengthening State-EPA Implementation of Water Programs:

Beginning in June 2008, ECOS Officers asked the agency to provide more collaboration at the national level to meet the challenges of increasing workload and declining resources. In November of 2008, work with the states culminated in the creation of the Partnership Council of the Office of Water and States to 'test' the early and ongoing engagement of the states in planning, budgeting, and implementation activities for the national water program. Since its creation, PCOWS has engaged regularly to discuss strategic priorities with the states, to ensure that core and key program activities are given appropriate priority in budget decisions, and to identify opportunities to maximize resources and reduce barriers in support of key joint priorities. Recently, the agency met with PCOWS to identify opportunities to streamline and reduce burdens from administrative activities, in response to the President's February 2011 Memorandum on Administrative Flexibility.

NPDES Program Withdrawal Requests:

The EPA currently has 21 pending NPDES authority withdrawal petitions in 16 different states. The petitions can be broad reaching or focused on narrow issues. Three of those 16 petitions have been filed since Jan 1 of this year. Eight Regions have at least one petition filed within their respective states. The last petition to be resolved was two years ago in July of 2009. Efforts have recently been re-doubled on a national level to address the concerns cited in withdrawal petitions. These efforts manifest in the form of increased withdrawal petition specific discussions with the Regions, the corresponding states, other agency offices and with Senior EPA management. While the recent efforts have yet to result in any new petition resolutions, the EPA is confident several will be resolved prior to the conclusion of CY2011.

Improving RCRA Oversight and Data Limitations:

In response to the OIG's findings that the Commonwealth of Pennsylvania did not collect ground water monitoring data at the Bruin Lagoon site as required by the terms of the Superfund State Contract, The EPA's Region 3 office developed new documentation procedures to address any future instances of non-compliance. The procedures, as documented in an October 2010 memorandum from the Director of the Office of Superfund Site Remediation, include consulting with Regional Counsel and documenting the non-compliance in a letter to the State. In instances of continued non-compliance, the issue will be elevated within the EPA and the state, and counsel will determine necessary actions to ensure a state carries out its obligations.

The RCRA program provides adequate oversight of state programs through several means. For instance, the EPA sets out national baselines and state commitments for grant funding. The EPA monitors the progress toward these goals through the Government Performance and Results Act and our Annual Commitment System, through discussions with our Regions (who meet directly with states to assess progress), and through frequent interaction with Association of State and Territorial Solid Waste Management Officials. The RCRA program works closely with ASTSWMO at the board-level, as well as in subgroups for particular topics (e.g., corrective action, permitting). In addition, the EPA works closely with states to issue rules and guidance to address issues of concern and provide implementation assistance for state programs.

In terms of addressing data limitations, the agency agrees with the OIG audit recommendation as far as making suggestions and recommendations to the States regarding the importance of document retention. Each state creates its own policy, and we will continue to stress this during our National Conferences and during our training sessions and outreach activity.

Improving State-EPA Collaborations Through National Environmental Performance Partnership System:

Through the National Environmental Performance Partnership System, the EPA and the states have developed a strategic, performance-based working relationship based on a clearer understanding of mutual issues and priorities and improved allocation of resources. Building on this successful platform, the EPA and the states are working together to share the workload more efficiently and effectively to achieve environmental and public health outcomes. In FY2011, the EPA and states will collaborate on a focused effort to identify opportunities for enhanced worksharing and resource and workload flexibility in order to maintain the effectiveness of core programs, particularly in light of widespread state budget reductions due to the economic downturn. The EPA established a task force with states to determine parameters for worksharing, identify program activities where worksharing can be more broadly applied areas where statutes or regulations prohibit worksharing, and share best practices for effective worksharing arrangements.

Challenge #3 – Safe Reuse of Contaminated Sites

Agency Response: Cleaning up contaminated sites and ensuring their safe reuse over the long term is an agency priority and central to the EPA's mission. The agency believes that it is doing an effective job of communicating site risks and remedies, and providing site users with information needed to ensure protectiveness.

For sites remediated under the Comprehensive Environmental Response Compensation and Liability Act, the EPA performs five-year reviews to ensure that sites remain protective. In rare situations where a site is not subject to a five-year review, the EPA uses its Comprehensive Environmental Response, Compensation and Liability Information System to identify sites where new contaminant information may lead to questions of long-term protectiveness. Under its *Return to Use Initiative*, the EPA also makes specific inquiries of the site managers and other stakeholders about new issues that might affect site risks if the site goes into reuse.

Additionally, the EPA may select institutional controls as a component of remedial action at a site where residual contamination remains in place. Institutional controls help minimize the potential for exposure to contaminant and/or protect the integrity of a remedial action and are subject to the same periodic five-year reviews as other remedy components. The agency has developed cross-program guidance, *Institutional Controls: A Guide to Planning, Implementing, Maintaining and Enforcing Institutional Controls at Contaminated Waste Sites*, which stresses the need for the EPA site managers and attorneys to coordinate early and often with State and local governments, tribes, responsible parties, communities, and other stakeholders to ensure that institutional controls are properly implemented, maintained (monitored and reported to the EPA), and enforced over their lifetime.

Promoting reuse sends communities a strong message about involving the EPA in their reuse discussions. Seeing the EPA as a collaborator rather than an impediment means that communities involve the EPA in the reuse process, allowing the agency to communicate key messages about protectiveness. Once communities are ready to discuss a site, the EPA can offer a number of tools to ensure the reuse is appropriate and will enhance long-term protectiveness. These include:

- *Ready for Reuse Determinations*—environmental status reports that reiterate the limitations and opportunities associated with the reuse of sites. While not mandatory, these may be useful for sharing information about the site to a broader audience.

- *Comfort and status letters*—issued by the Regions to convey the status of the site remediation, describe site limitations and protectiveness issues, and clarify liability issues.
- *Prospective purchaser inquiry calls*—provide consistent and reliable information about limitations and opportunities at sites. Frequently, these calls result in prospective purchasers determining that sites are not appropriate, thereby serving their purpose of providing information prospective users need to understand before using a site.
- *EPA-funded reuse planning*—offers communities and key stakeholders the opportunity to engage in an informed and realistic dialogue with the EPA project managers about the reuse of sites, including institutional controls and long-term stewardship.
- *Site reuse fact sheets*—highlight critical remedial components in place, long-term maintenance activities and institutional controls.

The EPA will continue to explore new tools and approaches for sharing this information to ensure that sites remain safe for future use.

Challenge #4 – Limited Capability to Respond to Cyber Security Attacks

Agency Response: The EPA acknowledges that Advanced Persistent Threats pose a significant challenge for the agency, as well as for all federal agencies. The EPA continues to make significant progress in enhancing situational awareness across the agency and increasing invisibility into network activities. To address this challenge, the agency has identified specific automated tools to address cyber security concerns that are being implemented in a secure manner. The agency has fully deployed a Security Information and Event Management Tool to facilitate greater vigilance in log reviews and activity monitoring. The agency's Computer Security Incident Response Capability office is working to build stronger relationships with internal organizations such as the Office of Homeland Security, for threat intelligence sharing.

Challenge #5 – The EPA's Framework for Assessing and Managing Chemical Risks

Agency Response: GAO continues to identify "Transforming EPA's Processes for Assessing and Controlling Chemicals" as a high-risk area, and OIG continues to identify "EPA's Framework for Assessing and Managing Chemical Risks" as a management challenge. In October 2009, the EPA acknowledged "Streamlining Chemical Assessments Under IRIS" as an agency-level weakness under the Federal Financial Managers' Integrity Act and has made progress in addressing concerns raised by both oversight organization.

Improving IRIS Process:

In May 2009, the agency released a new Integrated Risk Information System process for completing health assessments. The goal of the new process is to strengthen program management, increase transparency and expedite the timeliness of health assessments. Since that time, the agency's National Center for Environmental Assessment has completed 20 assessments, more than the number of assessments completed in the previous five years. Additionally, the agency is making significant progress on health hazard assessments of numerous high priority chemicals (e.g. formaldehyde, trichloroethylene, perchloroethylene, dichloromethane, arsenic, chromium VI, methanol, benzo[a]pyrene and Libby asbestos), including finalizing one assessment and completing of milestones for interagency science consultation, or external review for the others. Progress on these and other IRIS assessments is available at <http://www.epa.gov/IRIS/>. Assessments of health effects for chemicals found in environmental mixtures including PAHs, dioxins, phthalates and PCBs are being developed. These cumulative assessments will increase the number of chemicals that are addressed by the IRIS Program and are based upon the expressed needs of the agency. The EPA's Human Health Risk

Assessment program will continue to lead innovation in risk assessment science based on expanding scientific knowledge.

The EPA recently unveiled a new database that facilitates public access to the scientific studies that underpin key agency decisions. The Health Environmental Research Online database contains the key studies the EPA uses to develop environmental risk assessments for the public. It includes references and data supporting the Integrated Risk Information System which supports critical agency policymaking. The HERO database is publicly accessible so anyone is able to review the scientific literature behind the EPA science assessments. The HERO database strengthens the transparency of the science supporting agency decisions.

The IRIS update project is in a pilot phase. Toxicity values in IRIS that are more than 10 years old have been identified, screened, and prioritized based on agency needs; the first group of 15 high priority assessments has been selected for update. A Federal Standing Science Review Committee (FSSRC), consisting of reviewers from the EPA and other federal agencies has been assembled. An independent contractor will lead and conduct independent external peer reviews of these assessments. A second batch of nine assessments should be ready for the FSSRC by December 2011, and a Federal Register notice announcing a new set of 20-30 chemicals should be published by this summer.

In July 2011, the EPA announced additional measures to strengthen the scientific quality of IRIS assessments based on comments from the National Academy of Sciences. These measures include making assessment documents clearer, shorter and more transparent. The EPA will evaluate the strengths and weaknesses of critical studies in a more uniform way and clearly indicate which criteria were most influential in weighing scientific evidence supporting its choice of toxicity values. Also, the EPA will continue to track progress to determine if new timelines need adjustment.

Management of Endocrine Disrupting Chemicals:

The EPA has had three major tasks to complete before it could issue test orders to pesticide registrants and chemical manufacturers to commence testing. Validation to establish the relevance and reliability of the assays was the largest of these tasks. The EPA has followed a five-stage assay validation process that included: 1) test development, 2) pre-validation testing, 3) inter-laboratory validation studies, 4) peer review and 5) regulatory acceptance, as described at the EDSP website: (<http://www.epa.gov/scipoly/oscp/endo/pubs/assayvalidation/status.htm>). Each of the first three of these stages typically took a year or more to complete and had to be completed sequentially as the knowledge developed in one stage was essential to the conduct of the next stage. Peer review of these assays was completed in mid-2008.

A second task was the prioritization of chemicals to be screened. The EPA planned on using the high throughput *in vitro* assays used by the pharmaceutical industry as a means to rapidly identify those chemicals that may interact with the endocrine system. In a demonstration with 65 chemicals conducted in 1998-99, the high throughput screens failed to correctly identify most of the chemicals known to interact with hormone receptors; thus, the EPA was forced to adopt a different approach for selecting chemicals. A pilot demonstration of the utility of existing information led the EPA to the conclusion that this was also not a cost-effective way to prioritize and select chemicals for screening. In 2005, the EPA finally proposed and took comment on using exposure information only to identify chemicals, primarily pesticides, in the first round of Tier 1 screening. This approach led to the proposal of the first list of chemicals for screening in 2007.

The third task was to develop the policies and procedures which would apply to test order recipients. These include the procedures for responding to test orders, minimizing duplicative testing, providing for data compensation, and protecting sensitive information. In addition, the EPA developed cost estimates for conducting the Tier 1 battery which formed the basis of an Information Collection Request submitted

to OMB in 2008. The ICR was approved in the fall of 2009, and the first test orders were issued in October 2009.

In addition to the Food Quality Protection Act provisions that require the screening of all pesticide chemicals, the 1996 Safe Drinking Water Act provides the EPA with the authority to test substances that may be found in sources of drinking water to which a substantial population may be exposed. As instructed by the House Appropriation Committee, the EPA developed a second list of not less than 100 chemicals for screening. The agency published the second list in the Federal Register on November 17, 2010 along with a draft amended Information Collection Request and draft policies and procedures covering Safe Drinking Water Act chemicals. The List 2 chemicals are drawn from three sources: chemicals that have a National Primary Drinking Water Regulation, chemicals lists on the Contaminated Candidate List 3, and pesticides that are on the Registration Review Program schedule for FYs 2007 and 2008. The proposed second list to receive EDSP test orders contain 134 chemicals that are used as pesticides, personal care products, pharmaceuticals and/or in commerce. The agency has coordinated this effort internally and is currently reviewing and considering the comments submitted by the public and developing responses to the public comments before finalizing the second list.

As the EDSP progresses, the EPA continues to obtain information on endocrine related health effects. Despite the fact that the EDSP has only begun to screen chemicals, the EPA has been obtaining useful information regarding endocrine-related health effects, as documented by annual reports to Congress. EPA routinely requires pesticide applicants to submit data for a range of toxicity studies (see 40 CFR Part 158) for regulatory actions associated with the current and on-going registration of pesticide products in accordance with the Federal Insecticide, Fungicide, and Rodenticide Act and the Federal Food, Drug, and Cosmetic Act. A number of these studies provide information on endocrine-related effects. The agency evaluated 1,159 unique pesticide active ingredients and pesticide inert chemicals in connection with the Reregistration Program, Registration Review Program, Registration Program and tolerance action between August 3, 1999 and September 30, 2010. Of these 1,159 chemicals for which regulatory decisions were made, the agency received data on an estimated 600 unique chemicals that provided information on endocrine-related effects through one or more toxicity studies. In evaluating potential risks of a pesticide, the EPA's regulatory decisions ensure protection of human health and wildlife from the most sensitive adverse effects observed in the information base provided through mammalian and wildlife studies such as those required in 40 CFR Part 158. Of the 1,159 chemicals, endocrine-related effects were the most sensitive effects observed within the information base for 79 pesticides and, therefore, used in regulatory determination. All of the 1,159 chemicals evaluated by the EPA meet the required statutory safety standards based on available information. Under the FFDCA, the EPA has found that there is a reasonable certainty that no harm will result from exposure via the diet and other non-occupational pathways. Moreover, in the associated registration decision under FIFRA, the EPA has concluded that the use of the pesticides will not pose unreasonable risks to the environment.

The agency plans to finalize the second list along with the ICR and policies and procedures covering the SWDA chemicals. The agency also plans on implementing the EDSP for pesticides on a routine basis by continuing to issue orders for pesticides entering Registration Review. The Registration Review program requires all pesticides currently registered to be re-evaluated to ensure they meet current scientific and regulatory standards.

An important part of the continuation of the EDSP is the development of a Comprehensive Management Plan. This plan, will detail how the program is organized, managed, and how resources are allocated across the agency and tasks. In addition EDSP is developing a work plan that will outline the steps necessary to move the screening program from its current state into a new form that is less reliant on whole animal based assays, using computational models and higher throughput/shorter time *in vitro* methods to screen for the potential for endocrine disruption. The work plan is part of the

Comprehensive Management Plan. In response to an OIG evaluation of the EDSP, the Comprehensive Management Plan is due to be completed in mid-calendar year 2012.

The complexity of the scientific and regulatory process associated with the full implementation of the EDSP warrant the designation of the program as a management challenge. However, the EDSP continues to progress towards full implementation with the on-going evaluation of the chemicals, prioritization of the universe of chemicals and issuance of test orders.

GAO has stated that the EPA's framework for assessing and managing chemical risks has not yet achieved the goal of protecting human health and the environment and the EPA's effectiveness in assessing and managing chemical risks is hampered in part by limitations on the agency's authority to regulate chemicals under TSCA. In a similar vein, OIG believes the EPA needs to transform its processes for assessing and controlling toxic chemicals.

The EPA has announced its [principles to strengthen US chemical management laws](#), and initiated a comprehensive effort to enhance the agency's current chemicals management program within the limits of existing authorities, and is proposing expansions of that effort in the FY 2012 President's Budget. This effort includes:

- Using all available authorities under TSCA to take immediate and lasting action to eliminate or reduce identified chemical risks and develop safer alternatives;
- Using regulatory mechanisms to fill remaining gaps in critical exposure and health and safety data for chemicals already in commerce and increasing transparency and public access to information on TSCA chemicals;
- Using data from all available sources to prioritize chemicals for assessment and conducting detailed chemical risk assessments to inform and support development and implementation of risk management actions; and,
- Preventing introduction of unsafe new chemicals into commerce.

Reducing Chemical Risks:

In FY 2010 and FY 2011, the EPA increased use of regulatory authorities currently provided under TSCA and took non-regulatory action to reduce known chemical risks. The agency:

- Issued a Final Significant New Use Rule restricting the use of elemental mercury in various measuring devices (published in July 2010);
- Initiated a rulemaking under section 6 of TSCA to phase out or ban the use of mercury in a range of switches, relays, measuring devices, and other products (expected publication fall 2011);
- Published final SNURs for two carbon nanotubes on September 17, 2010, requiring companies to provide EPA 90 days notice before they manufacture or import the two carbon nanotubes and to comply with restrictions the EPA had already imposed on their original manufacturer;
- Issued a proposed rulemaking on glymes under section 5(a)(2) of TSCA to require prior notification to the agency of any new consumer of monoglyme, diglyme and ethylglyme;
- Issued an Advance Notice of Proposed Rulemaking on the agency's potential reassessment of its current authorization for PCB use and distribution in commerce;

- Initiated four Alternative Assessments for BPA in thermal paper, the flame retardants decaBDE and HBCD, and NPE surfactants; and
- Continued implementing the global Perfluorooctanoic Acid Steward Program to reduce perfluorooctanoic acid and related chemicals from emissions and product content, in which eight participating companies committed to achieve, no later than 2010, a 95% reduction in perfluorooctanoic acid emissions and the elimination of these chemicals from emissions and products by 2015 (2010 results are due in October 2011).

In FY 2012, the agency will continue expanding its portfolio of risk management actions, including:

- Furthering implementation of risk management actions initiated in FY 2010 and continued in FY 2011, including:
 - Section 6 use restrictions addressing long chain perfluorinated chemicals, hexabromocyclododecane, lead wheel weights, and mercury used in switches and certain measuring devices;
 - Section 5 Significant New Use Rules addressing; polybrominated diphenyl ethers, nonylphenol and nonylphenol ethoxylates, elemental mercury in products, benzidine dyes, certain short chain chlorinated paraffins, certain phthalates and hexabromocyclododecane; and,
 - Section 5(b)(4) chemicals of concern listings addressing phthalates, bisphenol A and PBDEs;
- Initiating five new risk management actions in FY 2012, including additional Section 6 use restrictions/prohibitions, Section 5 Significant New Use Rules and Section 5(b)(4) chemicals of concern listings, informed and supported by the 10 detailed chemical risk assessments to be initiated and completed in FY 2012 (see Assessment section below);
- Proposing, evaluating public comments and developing two final regulations implementing ten actions mandated under the recently enacted TSCA Title VI (Formaldehyde Standards for Composite Wood Act) establishing national emission standards for formaldehyde in new composite wood products - the statute requires the EPA to finalize and promulgate these regulations by January 1, 2013;
- Initiating stewardship activities including commitments from industry to adopt viable safer alternatives, safer best practices, voluntary withdrawal of dangerous chemicals and/or products from the market, and stewardship programs to reduce emissions;
- Promoting development of safer chemicals, chemical management practices and technologies by assessing risks and efficacy of alternatives associated with existing chemicals which present significant risks; and
- Issuing a final SNUR under section 5(a)(2) of TSCA for 14 glymes requiring persons who intend to manufacture, import or process these chemical substances for the designated significant new uses to notify the EPA at least 90 days before commencing.

The EPA has and will continue to work closely with other federal agencies, such as FDA and CPSC, to coordinate efforts on these chemicals.

Obtaining, Managing and Making Public Chemical Information:

In FY 2010 and FY 2011, the EPA increased its use of TSCA regulatory authorities to meet critical existing chemical data needs and increase transparency and public access to chemical information, including:

- Publishing the Final HPV Test Rule 2, covering 19 chemicals
- Advancing the Proposed HPV Test Rule 3, covering 29 chemicals
- Advancing the Proposed HPV Test Rule 4, covering an anticipated 29 chemicals
- Issuing a new confidential business information policy for review of CBI chemical identify claims for TSCA Section 8(e) notices of substantial risk in January 2010, and a notice of a new policy in May 2010 for review of CBI chemical identify claims for all health and safety studies to allow the public access to important information that would have otherwise remained secret;
- For the first time ever, providing in FY 2010 free online access to the TSCA Chemical Substance Inventory, allowing the public easy and free access to the listing of 84,000 chemicals in commerce;
- Integrating information on 3,800 TSCA facilities and 6,300 chemicals into Envirofacts, the EPA's single point of access on the internet for information about environmental activities;
- Proposing to modify the 2006 TSCA Inventory Update Reporting rule that would require manufacturers, including importers, to submit information electronically, make the data public more quickly, limit the information that can be treated as confidential, and require more reporting from chemical manufacturers;
- Developing a PMN/CBI Amendment for PMN submissions claiming chemical and micro-organism identify as confidential in health and safety studies submitted under TSCA prior to the commencement of manufacturer; and
- Initiating development of a Sunset Provision relating to claims for CBI submitted under the TSCA that would require the periodic reassertion and resubstantiation of such claims (NPRM is scheduled to publish in 2012).

In FY 2012, the EPA will continue expanding use of regulatory mechanisms to fill remaining gaps in critical exposure and health and safety data for chemicals already in commerce, improve management of TSCA information resources and maximize their availability and usefulness to the public, including:

- Issuing and implementing TSCA Section 4 Test Rules to obtain data needed to evaluate the safety of existing chemicals, including:
 - More than 100 HPV chemicals not sponsored under the HPV Challenge Program;
 - 125 or more chemicals newly identified as HPV chemicals in TSCA Inventory Update Reports submitted to the EPA in 2011; and,
 - Several other chemicals including bisphenol A and certain nanoscale materials;

- Implementing the expanded TSCA Inventory Update Reporting rule to develop more robust exposure data sets on all reported chemicals—not just HPV chemicals—and rapidly make those data publicly available:
 - In August 2010, the EPA proposed modifications to the IUR rule under section 8 of TSCA, presenting a range of options for public comment to make the reporting of chemical use information more transparent, more current, more useful and more useable by the public; and
 - The EPA expects to issue final amendments in FY 2011 and in FY 2012 to process submission of 2011 IUR data reports for approximately 6,000 to 7,000 chemicals produced in volumes of greater than 25 thousand pounds per year.
- Increasing transparency by reviewing all new TSCA chemical health and safety studies claimed in FY 2012 as CBI and 4,400 CBI cases submitted prior to 2010, challenging claims and declassifying studies where appropriate;
- Digitizing over 20,000 TSCA documents received under TSCA Sections 4, 5 and 8, and making those data, where appropriate, available to the public; and,
- Expanding electronic reporting to include all TSCA health and safety submissions and fully deploying 21st century information technology to more effectively and efficiently store and disseminate TSCA information.

Screening and Assessing Chemical Risks:

In FY 2012, the EPA will assess the risks of priority chemicals to determine what risk management is needed and to inform and support development and implementation of risk management actions, as appropriate, including:

- Initiating twelve detailed chemical risk assessments of priority chemicals that will inform the need for and support development of risk management actions, with seven of the assessments being completed in FY 2012;
- Developing hazard characterizations for 500 additional HPV chemicals using the data obtained through TSCA test rules, the TSCA IUR and previous voluntary industry submissions, bringing the cumulative total by the end of FY 2012 to 2,165 of the 2,900 HPV chemicals identified prior to the 2011 TSCA IUR;
- Increasing use of intelligent testing approaches to improve our ability to understand chemical risks;
- Developing methodologies and tools to better assess risks from high priority chemicals such as PBT chemicals in consumer products to support risk management actions on these chemicals;
- Analyzing the data the EPA has received through its Nanoscale Materials program to understand which nanoscale materials are produced, in what quantities, and what other risk-related data are available. The EPA will use this information to understand whether certain nanoscale materials may present risks to human health and the environment and warrant further assessment, testing or other action; and
- Enhancing the RSEI tool to help identify geographic areas with particularly high risk scores associated with toxics releases and the facilities and chemicals responsible for those conditions.

Preventing Introduction of Unsafe New Chemicals Into Commerce:

Through its New Chemicals Program, the EPA serves as America's gatekeeper for Industrial and commercial chemicals, ensuring that new chemicals introduced into U.S. commerce do not pose unreasonable risks to humans or the environment. In January 2010, the EPA published a final rule that enables and, by April 6, 2012 requires manufacturers and importers to submit PMNs and other TSCA Section 5 documents to the EPA electronically via the internet. The agency developed software to assist companies in preparing and executing their electronic submissions and is conducting training sessions via webinar and other means to help companies prepare to comply with these new requirements.

In FY 2006 to measure performance under the New Chemical Program, the EPA adopted a measure to reflect the program's statutory mission, establishing a "zero tolerance" performance standard for the number of new chemicals or micro-organisms introduced into commerce that pose an unreasonable risk to human health or the environment.

IMPROPER PAYMENTS

In accordance with the Improper Payments Elimination and Recovery Act of 2010, which amends the Improper Payments Information Act of 2002, the EPA reviews its programs and activities for improper payments. The EPA is committed to improving program performance by taking corrective action for any programs that are determined to be susceptible to significant improper payments. IPERA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative or other legally applicable requirements. Improper payment reviews are conducted in accordance with the OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*.

I. Risk Assessments

OMB Circular A-123, Appendix C, requires executive agencies to conduct risk assessments of their programs or activities to determine if programs are susceptible to significant improper payments. Given the large number of small, unique programs at the EPA, OMB has approved the agency's method of reporting on improper payments by payment stream. Every year, the EPA conducts quantitative risk assessments of its principal payment streams – grants, contracts, commodities, and the Clean and Drinking Water State Revolving Funds. The SRFs are former Section 57 programs for which OMB requires detailed reporting. Results from the agency's risk assessments are published below in Section IV, "Improper Payments Reporting." These quantitative risk assessments demonstrate that the EPA's principle payment streams are not "susceptible to significant improper payments", defined by OMB as exceeding both \$10 million of improper payments and 2.5 percent of program outlays.

II. Statistical Sampling

A) State Revolving Funds

ARRA provided the SRFs with an additional \$6 billion of spending authority. As a result, during the FY 2010 and FY 2011 improper payments reporting cycles, the SRF program broadened its sampling process to include state expenditures of ARRA funds. This involves the testing of four cash draws per state – twice per year – during the EPA's on-site visits. Similarly, the sampling of base appropriations involves the testing of at least four cash draws per state per year. A cash draw is a disbursement from Treasury for the payment of state grants. Each disbursement can refer to a single invoice or a batch of invoices, which are reviewed by the EPA for improper payments. Of the total \$3.6 billion in SRF outlays, approximately \$1.7 billion consisted of ARRA funds. Furthermore, of the total \$14.2 million of improper payments identified, 97.6 percent originated from ARRA funds, and 2.4 percent originated from base appropriations. Although a majority of SRF errors originated from the ARRA program, 90 percent of ARRA funds have now been disbursed. In addition, with less than \$350,000 of errors identified in the base program, this small amount is a good indication of the low level of long-term risk in the SRF program.

It should be noted that the transaction testing conducted by the EPA during FY 2011 pertains to expenditures made by the states during State FY 2010. In most cases, the State FY begins on July 1 and ends on June 30. Given the time lapse between the states' expenditure of SRF funds and the implementation of the EPA's on-site reviews, the agency has obtained OMB's approval to continue using the preceding State FY as its alternative twelve-month reporting period for SRF improper payments.

B) Grants

Every November since 2006, a list of recipients with active grants receiving more than \$20,000 during the prior fiscal year is pulled from the Integrated Grants Management System. From this list, a sample

of 60 nonprofit recipients is selected for detailed review. The recipients are randomly assigned to either a Desk Review or an On-Site review. Each review is conducted in accordance with standard protocol, and a checklist is provided to the reviewers as a guideline. A minimum of three non-consecutive draws from different grants is reviewed for each recipient, and the recipient is required to provide supporting documentation for the selected draws. Examples of supporting documentation include approval signatures, timecards, contracts and invoices. The type of supporting documentation may vary, depending on the programs or services supported by the grants.

Based upon historical data, the EPA considers the nonprofit grantees to be at greater risk of improper payments than all other grantees. As a result, the agency specifically analyzes the nonprofits for improper payments, using them as a proxy for all grants. However, since IPERA requires agencies to expand their efforts at identifying and recapturing improper payments, the EPA has broadened its sampling, review and reporting process to include state and local governments, universities and tribes. This expanded sampling began during Calendar Year 2011, and results of these reviews will be available for inclusion in the agency's FY 2012 improper payments report. The ongoing Calendar Year 2011 review includes the random selection of 120 grant recipients, which are stratified into higher-risk and lower-risk categories. These two categories were developed based upon an analysis of five years of post award reviews. Of the 120 grant recipients, 90 recipients were selected proportionally from the higher-risk group consisting of nonprofits, local governments and tribes, and 30 recipients were elected proportionally from the lower-risk group consisting of state governments and universities. Preliminary data indicate that the EPA's grants will remain below the OMB threshold for susceptibility to significant improper payments and full results will be published in the agency's FY 2012 improper payments submission.

C) Commercial Payments (contracts and commodities)

In February 2006, the agency centralized all commercial payments at the Research Triangle Park, North Carolina Finance Center, as part of an A-76 competition won by the agency. Previously, all non-contract (Simplified Acquisitions, utilities, training) invoices were paid by the 10 regional finance centers. The consolidation resulted in much greater discipline in the management and internal controls through the center's standardization of standard operating procedures and sophisticated payment systems.

The EPA does not use a statistical sampling methodology in its audit of commercial improper payments since each payment is subject to financial review, invoice approval and payment certification. Various post audits are performed as well. The following provides a brief summary of process controls in place on the agency's commercial invoice payment process.

The payment processing cycle requires all invoices be subjected to rigorous review and approval by separate entities. Steps taken to ensure payment accuracy and validity, which serve to prevent improper payments from occurring include: 1) the Finance Center's review for adequate funding and proper invoice acceptance, 2) comprehensive system edits to guard against duplicate payments, exceeding ceiling cost and fees, billing in wrong period of performance dates, and payment to wrong vendor, 3) electronic submission to agency Project Officers and Approving Officials, with a copy of the invoice, for validation of proper receipt of goods and services, period of performance dates, labor rates, appropriateness of payment, citing disallowances or disapprovals of costs if appropriate and 4) review by the Finance Center of suspensions and disallowances, if taken, prior to the final payment certification for Treasury processing. Additional preventive reviews are performed by the Finance Center on all credit and re-submittal invoices. Additionally, agency Contracting Officers perform annual review of an invoice on each contract they administer, and DCAA audits are performed at the request of the agency on large cost reimbursable contracts.

Additionally, monthly Finance Center Improper Payment Reports are provided to agency management. This information tracks the number and dollar amount of improper payments, the source and reason for

the improper payment, the number of preventive reviews conducted, and the dollar amount of recoveries made for current and prior years.

III. Corrective Actions

As published in previous improper payment reports, the EPA has demonstrated great success at maintaining low rates of improper payments in its principle payment streams. In FY 2011, it was determined that none of the EPA's payment streams was susceptible to significant improper payments. The agency maintains an internal payment recapture audit program that prevents, identifies and recovers improper payments. Of the improper payments that are identified, most of them consist of Administrative and Documentation errors, which arise from the incorrect processing of payments. Typical root causes of error include payments in the wrong amount, duplicate payments and payments to an incorrect vendor. The agency has consistently maintained low rates of improper payments across all payment streams. As a result, the EPA emphasizes adherence to sound internal controls, which serve to prevent the occurrence of improper payments, and aggressively recovers any that do occur.

In addition to the agency's existing improper payment reviews, the EPA initiated an agency-wide effort in 2011 to review and verify implementation of the Recovery Act Stewardship Plan, the agency's comprehensive risk assessment and risk mitigation strategy for its ARRA-funded activities. The policy verification included a statistical random sample of 110 awards across seven functional areas, including grants, contracts, and interagency agreements. Drawing directly from the RASP, the agency developed a review protocol based on: 1) the risks identified in the RASP and 2) the associated policies and procedures established by the RASP to mitigate each identified risk. Detailed, on-site reviews were then conducted for each sample award in the EPA regions, finance centers and headquarters program offices.

A number of review elements, such as indirect cost rate agreements, focus on improper payments. Though the report is still pending, once the report is finalized, OCFO will better understand the estimated scope of improper payments across all ARRA award activities, as well as corrective actions.

IV. Improper Payment Reporting

A) State Revolving Funds

The SRFs are state-administered programs that provide Federal funds to the states and Puerto Rico to capitalize revolving loan fund programs. The states receive invoices from fund recipients (e.g., municipalities), review them for eligibility and accuracy, and electronically submit cash draw requests for a batch of invoices to the EPA. The agency makes payments to the revolving loan funds and conducts annual on-site reviews in each state. The EPA conducts transaction testing, reviews invoices for eligibility, confirms that the total amount of invoices matches the amount of cash draw, and examines accounting records to confirm that the states made matching deposits.

Prior to IPERA, the agency established an overall improper payments target of 0.30 percent for the SRFs. This target remains an ambitious one, and the EPA has been consistent in meeting it over the years. In FY 2011, it was determined that the SRFs made improper payments totaling \$14.2 million, with an error rate of 0.39 percent, indicating that they remain below the OMB threshold for significant improper payments. Historical SRF improper payments data are summarized below:

Figure 1: Clean Water and Drinking Water SRFs*(Figures 1-4 provide information on the EPA's payment streams, supplementing Tables 1-6 from Circular A-136)*

Fiscal Year	Outlays	Improper Payments	Error Rate
2007	\$2.3 billion	\$1.64 million	0.07 percent
2008	\$2.1 billion	\$8.3 million	0.39 percent
2009	\$1.9 billion	\$1.1 million	0.06 percent
2010	\$4.8 billion	\$1.8 million	0.04 percent
2011	\$3.64 billion	\$14.18 million	0.39 percent

As a result of transaction testing and its oversight of state activities, the SRF program vigorously recovers overpayments. During its annual reviews, the agency tests four base transactions and eight ARRA transactions per state, examining all associated invoices. Whenever improper payments are identified, the EPA's financial analysts discuss them with the state during the review. Many of the payment errors are immediately corrected by the state or can be quickly resolved by adjusting a subsequent invoice. For issues requiring more detailed analysis, the state provides the agency with a plan for resolving the improper payments. This agreement is described in the agency's Program Evaluation Report, and the EPA follows up with the state to ensure compliance. As a result of this process, the SRF program is highly successful at correcting errors and recovering improper payments. In the current year, the SRF program achieved a recovery rate of 99.9%.

Table 1: Improper Payment Reduction Outlook*(Dollars in Millions; Tables 1-6 refer to the corresponding tables in OMB Circular A-136)*

Program	FY10 Outlays	FY10 IP%	FY10 IP \$	FY11 Outlays	FY11 IP%	FY11 IP \$	FY11 Over-pmt	FY11 Under-pmt	FY12 Outlays	FY12 IP%	FY12 IP \$	FY13 Outlays	FY13 IP%	FY13 IP \$	FY14 Outlays	FY14 IP%	FY14 IP \$
Clean Water and Drinking Water SRFs (1)	\$4,800	0.30 target 0.04 actual	\$3.5	\$3,645	0.30 target 0.39 actual	\$14.18	\$14.17	\$0.01	\$3,562 [est.]	0.30 target	\$10.7 [est.]	\$3,289 [est.]	0.30 target	\$9.9 [est.]	\$3,300 [est.]	0.30 target	\$9.9 [est.]

(1) The SRF program is listed here because it is a former Section 57 program of OMB Circular A-11. However, the SRF program does not exceed OMB's threshold for significant improper payments of \$10 million and 2.5 percent of program outlays.

B) Grants

The EPA continues to monitor grantees to ensure payment accuracy and recover improper payments. In Calendar Year 2010, the agency sampled 59 active, nonprofit grantee recipients to identify improper payments. Of these 59 grantees, five had actual erroneous payments.

It should be noted that, similar to the SRFs, the EPA has obtained OMB's approval to continue using an alternative twelve month period for reporting improper payments for grants. The agency uses the prior calendar year as its twelve-month reporting period for conducting grantee reviews. In the FY 2011 improper payments reporting cycle, the EPA is publishing the results of grantee reviews conducted during Calendar Year 2010. In Calendar Year 2011, the EPA has expanded its sampling of recipients to include state and local governments, universities and tribes, and will publish the result of these reviews in the FY 2012 improper payments report.

Results from the past five reviews are provided in the table below. The table also updates information on recovered costs and results from the appeals process for these years.

Figure 2: Nonprofit Grantees Review/Audit Results					
Nonprofit Grantees Review/Audit Results	CY 2006 Review	CY 2007 Review	CY 2008 Review	CY 2009 Review	CY 2010 Review
Total dollars drawn	\$29,373,772	\$22,544,462	\$120,209,284	\$10,258,129	\$21,242,755
Actual erroneous payments (unallowed costs)	\$39,167	\$13,433	\$111,329	\$12,697	\$7,110
Costs that have been recovered	\$19,798	\$13,433	\$111,329	\$4,647	\$7,110
Percent of erroneous payments	0.133%	0.059%	0.093%	0.124%	0.033%

In addition to the sampling process described above, the EPA maintains internal controls to help prevent the occurrence of improper payments in grants. Since 2008, the agency has implemented annual “baseline” monitoring of all active assistance agreements that review fund drawdowns for appropriateness. As part of the baseline monitoring, each assistance agreement is reviewed programmatically by a Project Officer, and administratively by a Grants Specialist. Both the Project Officer and Grants Specialist review financial drawdowns for consistency with the project’s duration and progress. Any irregularities found are examined with the recipient and further scrutinized when warranted. Project Officers also review quarterly reports submitted by recipients, to ensure projects are on schedule and progress matches the amount of funding used. Additionally, the EPA’s Las Vegas finance center routinely monitors grant payments made under the agency’s Automated Standard Application Payment system for irregularities.

C) Commercial Payments

Due to the historical low percentage of improper payments in the contracts and commodities payment streams, the EPA relies on its internal review processes to detect and recover associated improper payments. Additional post audit findings (OIG, A-123, DCAA) that warrant inclusion of improper payments are captured in Table 6 below. The agency continues to use its monthly Improper Payment Reports for both contracts and commodities as its primary tool for monitoring improper payments. Combined, the agency processed 79,000 commercial payments for \$1.9 billion in FY 2011, representing an overall improper payments rate of 0.12 percent, with a recovery rate of 99.7 percent. Data for FY 2007 through FY 2011 for contracts and commodities are summarized below.

Contracts:

Figure 3: Results of the EPA’s Improper Contract Payments Report			
Fiscal Year	Number of Erroneous Payments	Erroneous Payments (Dollars in Thousands)	Error Rate for Dollars
2007	14 (of 29,828)	\$65.3	0.01%
2008	12 (of 32,043)	\$324.0	0.03%
2009	31 (of 35,929)	\$716.4	0.05%
2010	35 (of 39,060)	\$882.6	0.08%
2011 ⁽¹⁾	21 (of 38,965)	\$162.9	0.01%

(1) DCAA audit results are presented in Table 6.

Commodities:

Figure 4: Results of the EPA's Improper Commodity Payments Report

Fiscal Year	Number of Erroneous Payments	Erroneous Payments (Dollars in Thousands)	Error Rate for Dollars
2007	63 (of 45,859)	\$176.5	0.06%
2008	48 (of 43,629)	\$215.4	0.08%
2009	32 (of 41, 585)	\$193.7	0.07%
2010	34 (of 39,571)	\$166.3	0.05%
2011	44 (of 40,083)	\$2,178.5 ⁽¹⁾	0.67%

(1) A single overpayment in the amount of \$1,664,837 represents 76 percent of all commodities improper payments identified in FY 2011. It was paid to the vendor instead of the vendor's assignee and was immediately recovered.

V. Recapture of Improper Payments

The EPA maintains an internal payment recapture audit program run by agency employees who continuously monitor the agency's payment streams to prevent, identify and recover improper payments. In FY 2004, the EPA contracted with a recovery auditor to sample a universe of \$6.5 billion of contracts and commodities outlays. It was determined that the agency made only \$50 thousand of improper payments during a period of five fiscal years, demonstrating the EPA's success at preventing improper payments. The recovery auditor noted in its final report that "The total recovery represents an error rate that is materially negligible in relation to the volume of transactions processed during our audit period."

Based upon this experience, the EPA determined that it would be preferable to establish an internal payment recapture audit program, in lieu of contracting with a recovery auditor. The agency's payment recapture audit program consists of agency employees reviewing grants, contracts, commodities and the SRFs for improper payments. No programs or activities are excluded from these reviews.²

The EPA's payment recapture audit program has recovered approximately \$20.8 million across all payment streams. This amount consists of approximately \$1.8 million from contracts, \$4.0 million from commodities (beginning in FY 2004 for each), \$156,000 from grants (beginning with the CY 2006 review), and \$14.9 million from the SRFs (beginning with the FY 2010 review).

² A-123 reviews of payroll, travel, and purchase cards efforts are an integral internal control mechanism for reducing improper payments, but these areas are not required for reporting under IPERA. As they involve payments to federal employees, they are exempt from the definition of improper payments, per OMB M-11-16, question 2.

Table 2: Payment Recapture Audit Reporting*(Tables 1- 6 refer to the corresponding tables in OMB Circular A-136)*

Program or Activity	Type of Payment	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported (CY)	Amount Identified for Recovery (CY)	Amount Recovered (CY)	% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable (CY)	% of Amount Determined Not to be Collectable out of Amount Identified (CY)	Amounts Identified for Recovery (PYS)	Amounts Recovered (PYS)	Cumulative Amounts Identified for Recovery (CY + PYS)	Cumulative Amounts Recovered (CY + PYS)	Cumulative Amounts Outstanding (CY+PYS)	Cumulative Amounts Determined Not to be Collectable (CY+PYS)
SRFs (1)	grants	3,644,665,300	1,129,881,840	14,165,798	14,154,293	99.9%	11,505	0.1%	0	0%	726,577	726,577	14,892,375	14,880,870	11,505	0
Grants (2)	grants	21,242,755	5,745,676	7,110	7,110	100%	0	0%	0	0%	176,626	149,207	183,736	156,317	27,419 (4)	0
Contracts (3)	contracts	1,600,132,236	1,600,132,236	20,570	20,570	100%	0	0%	0	0%	1,772,200	1,772,200	1,792,770	1,792,770	0	0
Commodities	small purchases	326,151,314	326,151,314	2,178,910	2,150,810	98.7%	28,100	1.3%	0	0%	1,844,089	1,841,448	4,022,999	3,992,258	31,850	1,200

- (1) For the SRFs, in Tables 2-6, "Current Year" refers to the transaction testing conducted during State FY 2010, and "Prior Year" refers to the transaction testing conducted during State FY 2009.
- (2) For grants, in Tables 2-6, "Current Year" results are from reviews performed in Calendar Year 2010, and "Prior Year" results are from reviews performed in Calendar Years 2006-2009.
- (3) For contracts and commodities, "Current Year" refers to FY 2011, and "Prior Year" refers to FY 2004-2010.
- (4) In certain instances, recipients continue to appeal the agency's unallowed cost determinations for prior years.

Table 3: Payment Recapture Audit Targets

Program or Activity	Type of Payment	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered / Amount Identified)	CY +1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
SRFs	Grants	\$14,165,798	\$14,154,293	99.9%	87%	89%	90%
Grants	Grants	\$7,110	\$7,110	100%	80%	85%	87%
Contracts	Contracts	\$20,570	\$20,570	100%	90%	91%	92%
Commodities	small purchases	\$2,178,900	\$2,150,800	98.7%	90%	91%	92%

Table 4: Aging of Outstanding Overpayments

Program or Activity	Type of Payment	CY Amount Outstanding (0 – 6 months)	CY Amount Outstanding (6 months to 1 year)	CY Amount Outstanding (over 1 year)
SRFs (1)	grants	\$11,505	\$0	\$0
Grants (2)	Grants	\$0	\$0	\$0
Contracts	Contracts	\$0	\$0	\$0
Commodities	small purchases	\$28,100 (3)	\$0	\$0

- (1) For the SRFs, "Current Year" data refers to the state reviews conducted during State FY 2010. This table shows amounts outstanding for the SRFs, beginning Oct. 1, 2010.
- (2) For grants, "Current Year" results are from reviews performed in Calendar Year 2010.
- (3) Three commodities overpayments were detected in September 2011, totaling \$28,100. They will be recovered in FY 2012.

Table 5: Disposition of Recaptured Funds

Program or Activity (1)	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
SRFs	grants	\$66,994	\$0	\$0	\$0	\$0	\$0
Grants (2)	grants	\$23,183	\$0	\$0	\$0	\$0	\$0
Contracts	contracts	\$17,123	\$0	\$0	\$0	\$0	\$0
Commodities	small purchases	\$13,528	\$0	\$0	\$0	\$0	\$0

- (1) No recoveries originated from expired funds appropriated after the enactment of IPERA. Therefore, all recoveries were returned to their original appropriation.
- (2) Since the SRFs are revolving loan funds, all SRF recoveries are automatically returned to the program (per OMB's guidance).

Table 6: Overpayments Recaptured Outside of Payment Recapture Audits

Source of Recovery	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (PY)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
SRF Single Audit Reviews	\$10,504	\$10,504	n/a	n/a	\$10,504	\$10,504
SRF state testing	\$379,758	\$379,758	n/a	n/a	\$379,758	\$379,758
DCAA Audits (1)	\$97,198	\$97,198	n/a	n/a	\$97,198	\$97,198

- (1) As shown in the "Defense Contract Audit Agency Audits" section of the AFR, \$97,198 was collected. Of the \$2,538,189 reported as "Other", \$1,979,255 is related to indirect cost rate adjustments, which are not considered to be improper payments since contracts are allowed to bill at a provisional indirect cost rate. The remaining \$558,934 is subject to further review due to late receipt of information.

VI. Accountability

As previously outlined, the agency continues to strengthen already strong internal controls in key payment processes. Information on erroneous payments from reviews and audits of the two SRFs, the EPA's largest grant programs, is reported semi-annually to management in both the Office of Water and the OCFO. In all cases, action is taken with the appropriate officials to ensure that improper payments are recovered and to avoid future improper payments.

VII. Agency Information Systems and Other Infrastructure

The agency's internal controls, human capital, information systems and other infrastructure are sufficient to monitor the reduction of improper payments to targeted levels.

VIII. Barriers

None.

IX. Conclusions

The agency's internal payment recapture audit program has been highly effective at identifying and recovering overpayments. In the first year of IPERA reporting, all of the EPA's payment streams have already exceeded OMB's recovery target rate of 85 percent by FY 2013. Although the agency's payment streams continue to demonstrate low levels of risk for improper payments, the EPA plans to continue assessing risk annually.

In addition, the agency commits to the following activities in FY 2012:

- Maintain a higher level of sampling for SRF base funding by reviewing at least four cash draws per state per year.
- Report results from the expanded Calendar Year 2011 review of state and local government, university, tribe and nonprofit grantees.

Appendix A

Public Access

The EPA invites the public to access its newly redesigned website at www.epa.gov to obtain the latest environmental news, browse agency topics, learn about environmental conditions in their communities, obtain information on interest groups, research laws and regulations, search specific program areas, or access the EPA's historical database.

American Recovery and Reinvestment Act of 2009: www.epa.gov/recovery

EPA newsroom: www.epa.gov/newsroom

- News releases: www.epa.gov/newsroom/newsreleases.htm
- Regional newsrooms: www.epa.gov/newsroom/#regions

Laws, regulations, guidance and dockets: www.epa.gov/lawsregs

- Major environmental laws: www.epa.gov/lawsregs/laws/index.html
- EPA's Federal Register website: www.epa.gov/fedrgstr

Where you live: www.epa.gov/epahome/whereyoulive.htm

- Search your community: www.epa.gov/epahome/commsearch.htm
- EPA regional offices: <http://www.epa.gov/epahome/regions.htm>

Information sources: www.epa.gov/epahome/resource.htm

- Hotlines and clearinghouses: www.epa.gov/epahome/hotline.htm
- Publications: www.epa.gov/epahome/publications.htm

Education resources: www.epa.gov/epahome/students.htm

- Office of Environmental Education: www.epa.gov/enviroed

About EPA: www.epa.gov/epahome/aboutepa.htm

- EPA organizational structure: www.epa.gov/epahome/organization.htm

EPA programs with a geographic focus: www.epa.gov/epahome/places.htm

Partnerships: www.epa.gov/partners

- Central Data Exchange: www.epa.gov/cdx
- Business Guide to Climate Change Partnerships:
www.epa.gov/partners/Biz_guide_to_epa_climate_partnerships.pdf

EPA for business and nonprofits: www.epa.gov/epahome/business.htm

- Small Business Gateway: www.epa.gov/smallbusiness
- Grants, fellowships, and environmental financing: www.epa.gov/epahome/grants.htm

Budget and performance: www.epa.gov/performance/

Careers: www.epa.gov/careers

- EZ Hire: www.epa.gov/ezhire

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EPA tiếng Việt: www.epa.gov/vietnamese

EPA 한국어: www.epa.gov/korean

Appendix B

Acronyms and Abbreviations

AFR	Agency Financial Report
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act
ASSERT	Automated System Security Evaluation and Remediation Tracking
BPD	Bureau of Public Debt
CBI	Confidential Business Information
CERCLA	Comprehensive Environmental Response Compensation and Liability Act
CFC	Cincinnati Finance Center
CFO	Chief Financial Officer
CO	Contracting Officer
CPC	Contractor Property Coordinator
CPIC	Capital Planning and Investment Control
CWA	Clean Water Act
DCAA	Defense Contract Audit Agency
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
DOT	U.S. Department of Transportation
DWSRF	Drinking Water State Revolving Fund
EAS	U.S. Environmental Protection Agency Acquisition System
ECHO	Enforcement and Compliance History Online
EPA	U.S. Environmental Protection Agency
EPM	Environmental Programs and Management
FAS	Fixed Assets Subsystem
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FERS	Federal Employees Retirement System
FFDCA	Federal Food, Drug and Cosmetic Act
FFMIA	Federal Financial Management Improvement Act of 1996
FIFRA	Federal Insecticide, Fungicide and Rodenticide Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FQPA	Food Quality Protection Act
FSSRC	Federal Standing Science Review Committee
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GIS	Geographical Information System
GSA	U.S. General Services Administration
HPV	High Production Volume
ICIS	Integrated Compliance Information System
ICR	Information Collection Request

IFMS	Integrated Financial Management System
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRIS	Integrated Risk Information System
IUR	Inventory Update Reporting
LUST	Leaking Underground Storage Tank
NAS	National Academy of Sciences
NPDES	National Pollutant Discharge Elimination System
NPL	National Priorities List
OCFO	Office of the Chief Financial Officer
ODD	Operating Division Director
OECA	Office of Enforcement and Compliance Assurance
OEI	Office of Environmental Information
OFM	Office of Financial Management
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
ORD	Office of Research and Development
PAH	Polyaromatic Hydrocarbon
PAR	Performance and Accountability Report
PCBs	Polychlorinated Biphenyls
PCOWS	Partnership Council of the Office of Water and States
PCS	Permit Compliance System
PM	Performance Measure
PMN	Pre-Manufacture Notice
PP&E	Plant, Property and Equipment
PRP	Potential Responsible Parties
QIC	Quality Assurance/Quality Control
R&D	Research and Development
RA	Remedial Action
RAM	Regional Acquisition Manager
RASP	Recovery Act Stewardship Plan
RCRA	Resource Conservation and Recovery Act
RMDS	Resource Management Directives System
RP	Responsible Party
RTP	Research Triangle Park
SARA	Superfund Amendments and Reauthorization Act of 1986
SDWA	Safe Drinking Water Act
SDWIS	Safe Drinking Water Information System
SFFAS	Statement of Federal Financial Accounting Standards
SNUR	Significant New Use Rule
SRF	State Revolving Fund
SSC	Superfund State Contracts

STAG	State and Tribal Assistance Grants
TMDL	Total Maximum Daily Load
TSCA	Toxic Substances Control Act
TVA	Tennessee Valley Authority
TWG	Targeted Watershed Grants
UST	Underground Storage Tanks
UV	Ultraviolet
WCF	Working Capital Fund

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Office of the Chief Financial Officer
Office of Financial Management
Environmental Protection Agency
1200 Pennsylvania Ave., NW
Washington, D.C. 20460

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